

ECONOMIC PREVIEW



REGIONS

Week of October 9, 2023

Indicator/Action

Economics Survey:

Last

Actual:

Regions' View:

<p>Fed Funds Rate: Target Range Midpoint <i>(After the October 31-November 1 FOMC meeting):</i> Target Range Mid-point: 5.375 to 5.375 percent Median Target Range Mid-point: 5.375 percent</p>	<p>Range: 5.25% to 5.50% Midpoint: 5.375%</p>	<p>Wednesday will bring the release of the minutes to the September FOMC meeting, which may shed more light on how divided Committee members are on the need for further Fed funds rate hikes and how confident they are in the economy's ability to withstand higher interest rates. Recall that in his press conference after the September FOMC meeting, Chair Powell noted that the Committee was split on whether or not policy has already reached the "sufficiently restrictive" threshold. One could argue that the incoming data have meaningfully diminished the odds of the final rate hike implied by the September dot plot, with inflation likely to be lower and the jobless rate likely to be higher than anticipated in the FOMC's updated projections issued last month. This week's inflation data will show further deceleration in inflation, and if our CPI forecast is on or near the mark, that will include deceleration in core services inflation excluding housing, a category which Chair Powell has put considerable emphasis on.</p>
<p>September Producer Price Index Wednesday, 10/11 Range: 0.1 to 0.6 percent Median: 0.3 percent</p>	<p>Aug = +0.7%</p>	<p><u>Up</u> by 0.3 percent, yielding a year-on-year increase of 1.6 percent.</p>
<p>September Producer Price Index: Core Wednesday, 10/11 Range: 0.0 to 0.3 percent Median: 0.2 percent</p>	<p>Aug = +0.2%</p>	<p><u>Up</u> by 0.2 percent, for a year-on-year increase of 2.3 percent.</p>
<p>September Consumer Price Index Thursday, 10/12 Range: -0.2 to 0.3 percent Median: 0.3 percent</p>	<p>Aug = +0.6%</p>	<p><u>Up</u> by 0.3 percent, which would translate into a year-on-year increase of 3.6 percent. After accounting for two-thirds of the monthly change in the total CPI in August, gasoline will make a much more modest contribution to the September increase, with retail pump prices up around 1.5 percent on a seasonally adjusted basis. Our forecast anticipates a 0.4 percent increase in primary rents, down from August's 0.5 percent increase, and for the 0.4 percent increase in owners' equivalent rents in August to be repeated in September, but it is worth again noting that the CPI measures of rent significantly lag market-based measures. One reason this matters is that rents account for over forty percent of the core CPI, roughly double their share in the core PCE Deflator. Vehicle prices should be firmer in the September data than has been the case and, if so, core goods inflation will have picked up a bit. We'll be carefully watching prices for discretionary services such as air fares, lodging rates, and rental car rates. Air fares fell sharply in September, and our expectation is that the decline was large enough to more than offset any boost from seasonal adjustment as the September seasonal factor anticipates lower fares. These three factors combined could easily push core CPI inflation above our forecast should the CPI measures of prices either fall by less than we expect or push higher.</p> <p>While most expect the September data to show further moderation in both headline and core inflation as measured by the CPI, the October data could bring a sharp decline in headline inflation and mixed signals on core inflation. Crude oil prices fell sharply last week, largely reflecting a surprisingly large build in gasoline inventories as higher prices did a number on demand as well as stepped-up production from U.S. producers. Higher gasoline stocks will diminish demand for crude oil and will push retail gasoline prices lower but, as these things tend to work, gasoline prices are much slower on the way down than on the way up. That said, continued declines in retail prices will mean gasoline acts as a drag, perhaps a material one, on the total CPI in October. Though we think it may be too soon for any such effects, as the UAW strike wears on prices for new and used vehicles will come under upward pressure. Also, with the October data, the CPI methodology for estimating premiums for health insurance will be updated and, after having acted as a meaningful drag on medical services prices over the past twelve months, this line item should transition into a support for medical services prices, in turn supporting firmer core inflation. Finally, if we are correct in our outlook for discretionary services spending, lower demand will help mitigate price pressures in this sector, thus contributing to more moderate core services inflation.</p>
<p>September Consumer Price Index: Core Thursday, 10/12 Range: 0.0 to 0.4 percent Median: 0.3 percent</p>	<p>Aug = +0.3%</p>	<p><u>Up</u> by 0.2 percent, which would yield a year-on-year increase of 4.0 percent.</p>

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