

ECONOMIC PREVIEW



Week of June 10, 2024

Indicator/Action

Economics Survey:

Last

Actual:

Regions' View:

<p>Fed Funds Rate: Target Range Midpoint <i>(After the June 11-12 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>That no change in the Fed funds rate is on tap doesn't mean this week's FOMC meeting won't be eventful. The Committee will release updated economic and financial projections, including an updated "dot plot." While the past two editions of the dot plot have implied three twenty-five basis point funds rate cuts by year-end 2024, in the March edition it would have taken only one Committee member shifting their call from three cuts to two to have driven the median dot higher. In light of the persistence of inflation pressures and a string of hawkish public comments from several FOMC members, it is all but a given that the updated dot plot will imply fewer than three rate cuts by year-end 2024, the question being whether that number will be one or two. Either way, we won't be at all surprised to see a similarly narrow margin in the distribution of the dots, i.e., a single member changing their call being the difference between the median dot implying one or two cuts. It is also likely that the median year-end 2025 dot will be higher than was the case in the March edition. The shift in the dot plot will come in conjunction with an updated inflation forecast, and we expect the median Q4 2024 forecast to be higher than was the case in the March projections. Additionally, though tending to get little attention, we are always interested in how members assess the risks to their forecasts for growth, inflation, and the unemployment rate. Recall that in the December 2023 projections, more FOMC members saw the risks to their inflation forecast as being balanced than saw the risks as weighted to the upside, which was the first such instance since March 2021, but the March 2024 projections again saw the majority of Committee members assessing the risks as weighted to the upside. If that is again the case, it could tilt the median year-end 2024 dot toward showing only one funds rate cut this year.</p> <p>One could argue that too much significance is attached to any given edition of the dot plot, and we'd further argue that the shelf life of any given dot plot has gotten shorter and shorter in light of inflation stubbornly refusing to stick to the FOMC's script. To that point, we think that in his post-meeting press conference Chair Powell will somewhat downplay the signaling value of the dot plot and instead emphasize that the Committee is data dependent, echoing the points he made after the May FOMC meeting. In that sense, the updated dot plot ultimately won't matter nearly as much as the path of inflation in the months ahead, if at all.</p>
<p>May Consumer Price Index Wednesday, 6/12 Range: 0.1 to 0.2 percent Median: 0.1 percent</p>	<p>Apr = +0.3%</p>	<p><u>Up</u> by 0.1 percent, which would yield a year-on-year increase of 3.4 percent. Retail gasoline prices should be down by around 3.5 percent on a seasonally adjusted basis, which would knock one-tenth of a point off the monthly change in the total CPI. We look for another modest increase in the overall index of food prices, with that increase entirely accounted for by prices of food consumed away from home as grocery store prices have flattened out over the past few months. We do not expect the May CPI data to have any bearing on this week's FOMC meeting.</p>
<p>May Consumer Price Index: Core Wednesday, 6/12 Range: 0.2 to 0.3 percent Median: 0.2 percent</p>	<p>Apr = +0.3%</p>	<p><u>Up</u> by 0.2 percent, which would yield a year-on-year increase of 3.5 percent. As with the past few months, the May month/month print on the core CPI will come down to simple rounding, but we think in this case the behavior of core goods prices will be the deciding factor. On the wholesale level, prices for used motor vehicles continue to fall, but that by no means assures the CPI measure will do the same, particularly after the sizable declines seen over the past two months. We do expect the CPI data to show prices for new motor vehicles falling at a faster pace. Apparel prices have been surprisingly robust over the past several months, which we do not expect to have continued into May, but this could also steer our forecast off course. On an unrounded basis, we look for both primary and owners' equivalent rents to print at 0.4 percent but will look for any further moderation in the unrounded changes.</p>
<p>May Producer Price Index Thursday, 6/13 Range: -0.1 to 0.2 percent Median: 0.1 percent</p>	<p>Apr = +0.5%</p>	<p><u>Unchanged</u>, which would leave the headline PPI up by 2.4 percent, which would be the largest such increase since March 2023.</p>
<p>May Producer Price Index: Core Thursday, 6/13 Range: 0.1 to 0.5 percent Median: 0.3 percent</p>	<p>Apr = +0.5%</p>	<p><u>Up</u> by 0.3 percent, which would translate into a year-on-year increase of 2.6 percent. Between the rate of increase in the PPI accelerating and the ISM measures of non-labor input prices showing sustained and broad-based increases, early-stage price pressures are showing no signs of abating. To the extent this remains the case while retail-level inflation is easing, firms may begin to feel more intense margin pressures.</p>

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