

# ECONOMIC PREVIEW



Week of March 27, 2023

## Indicator/Action

### Economics Survey:

## Last

### Actual:

### Regions' View:

<p><b>Fed Funds Rate: Target Range Midpoint</b>  <i>(After the May 2-3 FOMC meeting):</i>                  Target Range Mid-point: 4.875 to 5.125 percent                  Median Target Range Mid-point: 5.125 percent</p>	<p>Range: 4.75% to 5.00%                  Midpoint: 4.875%</p>	<p>While it was not a major surprise that the FOMC raised the Fed funds rate by twenty-five basis points at last week's meeting, it was somewhat surprising that the updated dot plot was little changed from that issued last December, with the implied terminal target range mid-point still at 5.125 percent. In his post-meeting press conference, Chair Powell noted the potential for tightening credit conditions to substitute for rate hikes, but it is simply too soon to know the extent to which credit conditions will tighten and how that will impact economic growth and inflation. Chair Powell also noted that a significant number of FOMC members incorporated tighter credit conditions into their funds rate forecasts reflected in the dot plot. At the same time, however, Chair Powell noted that while inflation is slowing, it is not doing so fast enough for the FOMC's comfort and that if tighter credit conditions do not contribute to meaningfully slower inflation, there should be no doubt the FOMC will continue pushing the funds rate higher. This week's latest read on the PCE Deflator (see Page 2) likely won't make the FOMC feel much better, particularly if the February data show no slowing in services sector inflation outside of housing. One could argue that the dot plot being so little changed from the December edition was simply the Committee's way of buying time to see whether, or to what extent, there will be more stress in the banking system, as there was nothing to be gained by using the dot plot to send an aggressive signal on the inflation fight. Either way, it is striking that while after Chair Powell's recent Congressional testimony the FOMC and the markets were finally on the same page in terms of the expected path of the funds rate, after last week's FOMC meeting they're no longer even in the same chapter.</p>
<p><b>February Advance Trade Balance: Goods</b>    Tuesday, 3/28                  Range: -\$94.5 to -\$85.8 billion                  Median: -\$90.0 billion</p>	<p>Jan = -\$91.5 billion</p>	<p><u>Narrowing</u> to -\$87.1 billion.</p>
<p><b>March Consumer Confidence</b>    Tuesday, 3/28                  Range: 95.0 to 104.0                  Median: 101.2</p>	<p>Dec = 102.9</p>	<p><u>Down</u> to 96.7 with concerns over the banking system and higher gasoline prices likely weighing on consumers. Recall that the University of Michigan's gauge of consumer sentiment fell over the first half of March despite roughly eighty-five percent of the surveys having been completed prior to the news of SVB's failure. We expect the Conference Board's survey to more fully reflect concerns over the banking system. That said, it is worth noting that while the University of Michigan measure of consumer sentiment is more weighted toward household finances, the Conference Board's measure of consumer confidence is more closely aligned with perceptions of labor market conditions, which should stem any decline in consumer confidence in the March survey. To that point, the "jobs plentiful-jobs hard to get" spread has widened in each of the past three months and in February was wider than at any time since last April. As we often note, we consider this spread to be the most relevant number in the Conference Board's monthly survey, as perceptions of their own job and income prospects are a key determinant of consumer spending decisions.</p>
<p><b>Q4 2022 Real GDP – 3<sup>rd</sup> estimate</b>    Thursday, 3/30                  Range: 2.7 to 3.0 percent                  Median: 2.7 percent</p>	<p>2<sup>nd</sup> est. = +2.7% SAAR</p>	<p><u>Up</u> at an annualized rate of 2.8 percent. In conjunction with the revised GDP data, the BEA will issue their first estimate of Q4 corporate profits. With profits having taken a tumble in Q3, we look for a further decline in the Q4 data.</p>
<p><b>Q4 GDP Price Index – 3<sup>rd</sup> estimate</b>    Thursday, 3/30                  Range: 3.9 to 4.0 percent                  Median: 3.9 percent</p>	<p>2<sup>nd</sup> est. = +3.9% SAAR</p>	<p><u>Up</u> at an annualized rate of 4.0 percent.</p>
<p><b>February Personal Income</b>    Friday, 3/31                  Range: -0.1 to 0.6 percent                  Median: 0.3 percent</p>	<p>Jan = +0.6%</p>	<p><u>Up</u> by 0.2 percent. The expiration of supplemental SNAP benefits, part of the policy response to the pandemic, will act as a drag on transfer payments and, in turn, growth in top-line personal income. Given the variance in payment amounts and the timing of payments across the individual states, however, the extent of that drag in the March data is hard to gauge, which injects added uncertainty into our forecast. At the same time, despite another outsized increase in nonfarm payrolls, February saw a decline in aggregate hours worked and the smallest monthly increase in hourly earnings in a year, a combination that will act as a powerful drag on growth in aggregate wage and salary earnings. Moreover, given a downward revision to the initial estimate of aggregate hours worked in January, the BEA's first estimate of January growth in labor earnings could be revised down. While we don't see much support for income growth in February, the underlying trend remains healthy.</p>

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### Regions' View:

<p><b>February Personal Spending</b>            Range: -0.6 to 0.5 percent            Median: 0.3 percent</p>	<p>Friday, 3/31            Jan = +1.8%</p>	<p><u>Up</u> by 0.2 percent. Unit motor vehicle sales fell sharply in February, and the retail sales data point to declines in spending on other types of consumer durable goods, which will weigh on overall goods spending. The only glimpse of services spending included in the retail sales data is restaurant spending, and in the February data that's not a good look, with restaurant sales down by 2.2 percent. While that number from the retail sales data does not feed into the BEA's measure of services spending, we do think it portends a much softer increase in services spending than those seen over the prior several months. As such, we look for only modest growth in total consumer spending in February. It helps to recall that, like much of the other economic data, January's outsized increase in consumer spending was significantly bolstered by favorable seasonal adjustment, so our forecast for February would fall in line with the trend taking hold before the implausibly large increase reported for January.</p>
<p><b>February PCE Deflator</b>            Range: 0.3 to 0.4 percent            Median: 0.3 percent</p>	<p>Friday, 3/31            Jan = +0.6%</p>	<p><u>Up</u> by 0.4 percent, which would translate into a year-on-year increase of 5.1 percent. We look for the <u>core PCE Deflator</u> to also be <u>up</u> by 0.4 percent, which would yield a year-on-year increase of 4.8 percent.</p>

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