ECONOMIC PREVIEW

REGIONS

Week of September 2, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 17-18 FOMC meeting):* Target Range Midpoint: 1.625 to 1.875 percent Median Target Range Midpoint: 1.875 percent	Range: 2.00% to 2.25% Midpoint: 2.125%	Based on its track record, the initial estimate of August job growth in any given year is to reliability what The Rock is to quiet decorum. Over the past ten years, the initial estimate of August job growth has been revised higher by an average of 59,000 jobs between the first and third estimates, for two main reasons. First, the initial response rate to the August establishment survey tends to be very low, in many years only January has seen a lower response rate – apparently it's just too cold in January and too hot in August for employers to be responding to surveys. The response rate rises in subsequent months as firms backfill the August data, and so too do the estimates of August job growth (2015 was a rare outlier). Additionally, recent years have seen earlier starts to the school year, thus making it more difficult for BLS to properly seasonally adjust the government sector data for August and September, with the initial estimate for August tending to be revised higher in recent years. Okay, we know what you're thinking – why not just build your forecast as in any other month and then knock 50,000 or so jobs off. Though some opt to go this route, we'd rather our forecast convey what we think August job growth will be (or, will at least be close to) once all of the noise in the initial BLS estimate has been accounted for, even if this means our forecast is wildly off from the initial estimate. Another potential source of noise in this year's August employment report is hiring for the 2020 Census which, though it has yet to do so, will at some point begin to infiltrate the monthly employment data. We've added in some of the initial Census hiring to our forecast of government sector job growth in August, but our timing could be off. The bottom line is that the top-line job growth number on the August employment report may not be all that useful – we'll look to the response rate to the BLS's August establishment survey as a guide. But, if the response rate is low, that means the details beneath the headline job growth number will also be less useful than is normally the case. In the grand scheme of things, none of this matters all that much, as any noise in the initial August data will be cleared up in subsequent months. The problem, however, is that the timing is pretty lousy – in the midst of growing concerns over the state of the U.S. economy, the August employment report will be looked to for guidance, though in far too many cases the looking will begin and end with a headline job growth number that may look quite different a couple of months down the road.
August ISM Manufacturing Index Tuesday, 9/2 Range: 50.4 to 52.0 percent Median: 51.3 percent	Jul = 51.2%	<u>Up</u> to 51.6 percent. While the regional manufacturing surveys suggest a modest bounce in the August data, we expect the ISM's headline index to resume its downward trend in the months ahead. One troubling detail in the recent data is that growth in the factory sector has become increasingly less broad based – only 9 of the 18 industry groups reported growth in July, the fewest since September 2016. This weakens the base for growth in new orders, employment, and production, and the new orders index, which has long been one of our favorite forward looking indicators, has weakened markedly over recent months. Though trade tensions are the most typically cited factor, a sizable inventory overhang, gradually easing motor vehicle sales, and Boeing's issues have also contributed to deteriorating conditions in the U.S. manufacturing sector over the past several months
July Construction Spending Tuesday, 9/2 Range: 0.0 to 0.8 percent Median: 0.3 percent	Jun = -1.3%	<u>Up</u> by 0.6 percent. This release will incorporate the delayed comprehensive revisions to the historical data – the revisions go all the way back to January 2008 for the seasonally adjusted data. It will be interesting to see if the revisions alter the profile of business investment in structures, which has been notably weak in recent quarters.
July Trade Balance Wednesday, 9/4 Range: -\$57.0 to -\$52.9 billion Median: -\$54.0 billion	Jun = -\$55.2 billion	<u>Narrowing</u> to -\$53.2 billion. The advance data on trade in goods show a smaller deficit in the goods account, and our forecast anticipates a modestly larger surplus in the services account. The net result will be a smaller overall trade deficit.
July Factory Orders Thursday, 9/5 Range: 0.5 to 1.8 percent Median: 1.2 percent	Jun = +0.6%	<u>Up</u> by 1.3 percent. The advance data show a jump in aircraft orders, both defense and nondefense, pulled durable goods orders higher, and our forecast anticipates a modest increase in orders for nondurable goods. As in any month, the details on core capital goods orders and shipments will be the most important element of the July data. The data on shipments feed into the GDP data, and the preliminary July data show a sharp decline in core capital goods shipments, which gets Q3 business fixed investment off to a weak start. Amidst faltering global growth and lingering uncertainty over the course of trade policy, it becomes increasingly difficult to see a catalyst for business investment to perk up any time soon – anyone thinking still more monetary "stimulus" is the answer will be sorely disappointed.

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Q2 Nonfarm Productivity (revised) Range: 1.6 to 2.3 percent Median: 2.2 percent SAAR	Thursday, 9/5	Q2 (prelim) = +2.3% SAAR	Up at an annualized rate of 2.3 percent, matching the initial estimate. Though top-line Q2 real GDP growth was revised slightly lower, there was no change to the initial estimate of growth in real nonfarm business output. The risk to our forecast is that BLS revises their estimate of aggregate hours worked in Q2 but, as the estimate of hours worked seldom makes sense to us, we'll just take our chances on this one.
Q2 Unit Labor Costs (revised) Range: 1.8 to 2.6 percent Median: 2.4 percent SAAR	Thursday, 9/5	Q2 (prelim) = +2.4% SAAR	Up at an annualized rate of 2.3 percent, a bit lower than the initial estimate on slightly slower growth in compensation costs than incorporated into the initial estimate.
August ISM Non-Manufacturing Index Range: 52.5 to 55.3 percent Median: 54.0 percent	Thursday, 9/5	Jul = 53.7%	Up to 54.1 percent.
August Nonfarm Employment Range: 130,000 to 210,000 jobs Median: 163,000 jobs	Friday, 9/6	Jul = +148,000 jobs	Up by 196,000 jobs, with private sector payrolls up by 162,000 jobs and public sector payrolls up by 34,000 jobs. As noted earlier, we have a lower than normal degree of confidence in our forecast of monthly job growth for August, as there could be a significant degree of noise in the initial BLS estimates of both private and public sector job growth. More fundamentally, we remain focused on the breadth of hiring across private sector industry groups. While hiring has thus far remained encouragingly broad based, a meaningful erosion in the one-month hiring diffusion index would be one of the first signs that weakness in the factory sector has begun to spill over into the broader economy.
August Manufacturing Employment Range: 1,000 to 10,000 jobs Median: 4,000 jobs	Friday, 9/6	Jul = +16,000 jobs	Up by 4,000 jobs.
August Average Weekly Hours Range: 34.3 to 34.4 hours Median: 34.4 hours	Friday, 9/6	Jul = 34.3 hours	Up to 34.4 hours.
August Average Hourly Earnings Range: 0.2 to 0.3 percent Median: 0.3 percent	Friday, 9/6	Jul = +0.2%	Up by 0.3 percent, for a year-on-year increase of 3.0 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.7 percent increase in aggregate private sector wage and salary earnings, leaving them up 4.4 percent year-on-year.
August Unemployment Rate Range: 3.6 to 3.7 percent Median: 3.7 percent	Friday, 9/6	Jul = 3.7%	Down to 3.6 percent. Much like the data from the establishment survey, August can be a tricky month for the data from the household survey, which is used to estimate the unemployment rate. While May and June see inflows of summer job seekers, those inflows reverse in August and September, depending on the timing of the school year. This year saw the largest influx of 16-to-19 year-olds of any June since 2007, the vast majority of whom likely left the labor force in August. If seasonal adjustment can't keep pace, it could yield a change in the measured unemployment rate that has nothing to do with overall economic conditions. Of more significance is the Conference Board's monthly survey of consumer confidence, which includes consumers' assessments of labor market conditions. As we've noted in the past, changes in the spread between those who see jobs as "plentiful" and those who see jobs as "hard to get" have long been a reliable signal of shifts in the jobless rate. That spread widened significantly in August, leaving it wider than at any time since November 2000, which suggests a decline in the unemployment rate.

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