ECONOMIC PREVIEW

REGIONS

Week of June 1, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 9-10 FOMC meeting):* Target Range Mid-point: 0.000 to 0.125 percent Median Target Range Mid-point: 0.125 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	This week's crowded docket of data releases is bookended by the ISM Manufacturing Index (Monday) and the May employment report (Friday). We think the general tone of the top-tier data for the month of May will be "by no means good but less bad than the April data." Many of the higher frequency indicators we track suggest the free-fall in economic activity has been arrested, which is to be expected given that all states have, to varying degrees, taken steps to relax restrictions on economic activity. Given that for the most part restrictions were not eased until the latter part of May, however, it will not be until the June data that any meaningful impact of the easing in restrictions is visible in the top-tier series, though we expect much better May data on residential construction and new home sales will be an exception. The May employment report notwithstanding, the weekly report on Unemployment Insurance claims (Thursday) may be this week's most important release. Though clearly off their peak, initial claims remain disturbingly high. Our main focus, however, remains on continuing claims, and while last week's decline was encouraging, the extent to which that decline is sustained over coming weeks will be a key indicator of the progress being made in the broader economy.
May ISM Manufacturing Index Monday, 6/1 Range: 39.2 to 45.0 percent Median: 42.5 percent	Apr = 41.5%	Up to 44.7 percent. Though factory activity had begun to rebound over the back half of May, the first steps were halting. Most of the factories that came back online did so at well below full capacity, with many firms that are reliant on global supply chains continuing to face constraints on supplies of inputs. To that point, impaired supply chains have, somewhat oddly, been a contrarian support for the headline ISM index number over the past few months; we anticipate that will be the case with the May data, but to a lesser extent than in the April data. As such, we'll place more stock in our "activity based" composite of the indexes on new orders, employment, and production – while our forecast anticipates each index will have increased, they will all remain well below the 50.0 percent mark. Our forecast has our composite index rising to 35.5 percent in May from an all-time low of 27.4 percent in April.
April Construction Spending Monday, 6/1 Range: -10.0 to 0.0 percent Median: -5.3 percent	Mar = +0.9%	Down by 7.2 percent.
April Factory Orders Wednesday, 6/3 Range: -20.0 to -7.4 percent Median: -14.0 percent	Mar = -10.4%	Down by 15.2 percent.
May ISM Non-Manufacturing Index Wednesday, 6/3 Range: 41.0 to 46.0 percent Median: 44.0 percent	Apr = 41.8%	Up to 45.0 percent. The points made in the discussion of the ISM Manufacturing Index (see above) apply here – the key indexes measuring business activity, new orders, and employment will rise but will nonetheless remain well below the 50.0 percent break between contraction and expansion, while still-impaired supply chains will provide an artificial lift to the headline index number. Our forecast anticipates our "activity based" composite of business activity, new orders, and employment, will have risen to 36.9 percent in May from 29.6 percent in April.
April Trade Balance Thursday, 6/4 Range: -$54.0 to -$34.1 billion Median: -$45.2 billion	Mar = -$44.4 billion	Widening to -$53.1 billion. We know from the advance data on trade in goods that the deficit in the goods account widened materially in April; a sharp decline in global demand for U.S.-produced capital goods and motor vehicles meant that exports of goods fell much more sharply than did imports. Our forecast anticipates a smaller surplus in the services account which, when combined with the wider deficit in the goods account, yields a wider overall trade gap in April. Though April is but the first month of the quarter, trade is shaping up to be a drag on real GDP growth in Q2 – though, as we know all too well by now, it will have plenty of company,
Q1 Nonfarm Labor Productivity (rev.) Thursday, 6/4 Range: -2.9 to -1.3 percent Median: -2.5 percent SAAR	Q1 (prelim) = -2.5% SAAR	Down at an annualized rate of 2.7 percent. Revised data show real output in the nonfarm business sector declined at an annualized rate of 6.5 percent in Q1, a bit more severe than the initial estimate of a 6.2 percent (annualized) contraction. At the same time, however, the decline in aggregate hours worked in Q1 should be larger than was initially estimated ("should" being the operative word here, given that it's the productivity data we're talking about), with the net result being only a modest downward revision to the initial estimate of Q1 productivity.
Q1 Unit Labor Costs (rev.) Thursday, 6/4 Range: -3.0 to 5.7 percent Median: 4.8 percent SAAR	Q1 (prelim.) = +4.8% SAAR	Up at an annualized rate of 5.1 percent.

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
May Nonfarm Employment Range: -19,000,000 to -2,000,000 jobs Median: -8,165,000 jobs	Friday, 6/5	Apr = -20,500,000 jobs	Down by 8,330,000 jobs, with private sector payrolls down by 7,700,000 jobs and public sector payrolls down by 630,000 jobs. While we know that over 12 million people filed initial claims for Unemployment Insurance (UI) between the April and May survey periods, translating that number into a forecast of May nonfarm employment is considerably less straightforward, as is apparent in the wide range of estimates in the weekly forecast surveys. While we have virtually no, okay, fine, absolutely no, confidence in our forecast of the headline job loss number, we have more, okay, fine, a tiny bit more, confidence in our read on the patterns beneath the headline number. While both broad sectors will see fewer job losses than in April, we expect May's job losses will again be highly concentrated amongst services providing industries, rather than amongst goods producing industries, just as was the case in April. Within the services sector, job losses will be more concentrated amongst leisure and hospitality services and retail trade, with health care and transportation again hit hard. While by the end of May states were taking steps to ease restrictions on economic activity, there were considerable differences across individual states as to what this meant, meaning that any rebounds in job counts will vary across both geographies and industry groups. Moreover, while the pace of layoffs has clearly moderated, initial UI claims remain significantly elevated, calling into question whether May will mark the end of the decline in nonfarm employment or whether the June data will show yet more job losses. It is too soon to make that call, but the data on initial UI claims data are not all that encouraging.
May Manufacturing Employment Range: -1,051,000 to -320,000 jobs Median: -500,000 jobs	Friday, 6/5	Apr = -1,330,000 jobs	Down by 480,000 jobs.
May Average Weekly Hours Range: 32.0 to 34.4 hours Median: 34.3 hours	Friday, 6/5	Apr = 34.2 hours	Up to 34.3 hours. If we are correct on the mix of job losses in May, that would suggest a further increase in the average length of the workweek after a one-tenth of an hour in April. Even so, aggregate private sector hours worked will still have declined significantly in May given the extent to which the level of employment declined. We pay considerable attention to aggregate hours worked, as this is a view into changes in real GDP from a supply-side perspective, and from this perspective the contraction in real GDP in Q2 is tracking to be larger than that implied from "demand side" indicators. This is one reason why whether, or to what extent, the labor market begins to recover during June will be critical.
May Average Hourly Earnings Range: -1.0 to 3.9 percent Median: 1.1 percent	Friday, 6/5	Apr = +4.7%	Up by 1.1 percent, for a year-on-year increase of 8.8 percent. April's surprisingly large increase in average hourly earnings reflected the mix of job losses, i.e., more heavily weighted toward lower earnings industry groups, and we think that will again be the case in the May data, though yielding a smaller change in average hourly earnings than in April. Our calls on job growth, hours worked, and hourly earnings yield a 5.8 percent decline in aggregate private sector wage and salary earnings, for a year-on-year decline of 13.9 percent, but if the average length of the workweek does not increase as our forecast anticipates, both of these declines will be larger.
May Unemployment Rate Range: 16.6 to 20.9 percent Median: 19.8 percent	Friday, 6/5	Apr = 14.7%	Up to 19.8 percent. BLS reported that the March and April unemployment rates were understated by large numbers of people incorrectly reporting their status as "absent from work" rather than "unemployed." The extent to which that may have been the case in May remains to be seen, but this issue injects a high degree of uncertainty into any forecast of May's jobless rate. Beneath the headline jobless rate, there will be two telling details of the May household survey data to focus on – the number of people working part-time for economic reasons, and the breakdown of May job losses between temporary layoffs and permanent job losses. In April, the number of those working part-time for economic reasons rose by more than five million people which, while not impacting the "headline" jobless rate added to the increase in the broader U6 measure, while the reduction in hours worked acted as a material drag on aggregate labor earnings. In April, 88 percent of those who lost a job reported they were on temporary layoff. While we expect a similarly high share in the May data, the relevant question is how many of what started as temporary layoffs will morph into permanent job losses, a number we think will prove to be disappointingly high.

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