ECONOMIC PREVIEW

REGIONS

Week of June 29, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 28-29 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%	The June ISM Manufacturing Index and the June Employment Report are the highlights of a holiday-shortened week. This week also brings the release of the minutes of the June FOMC meeting, which may shed more light on additional policy moves, such as yield curve control, the Committee may be considering.
June Consumer Confidence Tuesday, 6/30 Range: 87.0 to 96.0 Median: 90.0	May = 86.6	Up to 92.6 with both the present situation and expectations components rising but remaining well below pre-virus highs. As always, we'll be most interested in consumers' assessments of labor market conditions – the "jobs plentiful-jobs hard to find" spread has a long track record as a reliable indicator of changes in the jobless rate. Though remaining negative, that spread narrowed in May and the June read will be of interest given the mixed messages being sent by other labor market indicators. It is also worth pointing out that the cut-off point for the Conference Board's survey is generally around mid-month. So while it is unlikely the recent upturn in positive tests for the COVID-19 virus will have had a meaningful impact on the June data, the July data could show a marked deterioration in consumer confidence if the upturn in positive tests does not abate.
June ISM Manufacturing Index Wednesday, 7/1 Range: 44.6 to 52.3 percent Median: 47.9 percent	May = 43.1%	Up to 51.6 percent. The headline index has not been a reliable gauge of manufacturing sector activity over the past few months, as it has been boosted by slower supplier delivery times, reflecting clogged up supply chains. We expect that will again be the case in the June data, which isn't to say conditions in the factory sector haven't improved, they have, just not to the extent we expect the headline index to imply. Our equally-weighted composite of the indexes for production, employment, and new orders has been a better guide of manufacturing activity, and after falling to an all-time low of 27.4 percent in April, the composite rose to 32.4 percent in May and our forecast anticipates it rising to 48.4 percent in June.
May Construction Spending Wednesday, 7/1 Range: -1.9 to 3.0 percent Median: 1.0 percent	Apr = -2.9%	Down by 1.6 percent.
May Trade Balance Thursday, 7/2 Range: -\$55.6 to -\$43.5 billion Median: -\$53.0 billion	Apr = -\$49.4 billion	Widening to -\$53.6 billion.
May Factory Orders Thursday, 7/2 Range: 5.0 to 12.4 percent Median: 7.2 percent	Apr = -13.0%	Up by 10.7 percent, thanks mainly to durable goods orders. Beneath the headline number, however, will lie a much smaller increase in core capital goods orders, which the advance data show rose by just 2.3 percent. Core capital goods orders will be the best gauge of the extent to which business investment spending will fare over coming quarters. Our forecast anticipates growth in business investment will lag growth in the broader economy, as was the case over much of the last cycle.
June Nonfarm Employment Friday, 7/2 Range: 1.500 to 7.000 million jobs Median: 3.090 million jobs	May = +2.509 million jobs	Up by 3.342 million jobs, with private sector payrolls up by 2.656 million jobs and public sector payrolls up by 0.686 million jobs. The first order of business will be the revision to the initial estimate of May job growth. Many, including us, have cast a suspicious eye on the initial estimate showing nonfarm employment increased by 2.509 million jobs in May. A notably low response rate to the BLS's establishment survey raises the possibility of a sizable revision. Moreover, there is a convincing body of evidence suggesting the Paycheck Protection Program (PPP) played a big role in reported May job growth, but with the restrictions originally incorporated into the PPP having since been relaxed, it is highly unlikely that the June data will be affected to nearly the same degree. Our forecast anticipates a large increase in public sector payrolls, reflecting nothing more than seasonal adjustment noise. In a normal year, June and, to a greater extent, July see teachers roll off of payrolls, meaning the not seasonally adjusted data show sharp declines in the education component of state and local government employment, declines that are compensated for by seasonal adjustment. The early end to this year's school term means those job losses also came early, so unadjusted employment in this category for June should be basically flat, meaning seasonal adjustment will overcompensate, yielding a large gain in the seasonally adjusted data, and any such effects could be more pronounced in the July data. This noise places the focus squarely on private sector job growth. We'll be watching the one-month hiring diffusion index, a measure of the breadth of hiring across the private sector and our favorite beneath the headlines metric in each month's employment report. Job growth being more broadly based than was the case in May would be a tangible sign of a meaningful rebound in the U.S. economy

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June Manufacturing Employment Friday, 7/2 Range: 65,000 to 3,000,000 jobs Median: 368,000 jobs	May = +225,000 jobs	Up by 486,000 jobs.
June Average Weekly Hours Friday, 7/2 Range: 34.4 to 34.7 hours Median: 34.5 hours	May = 34.7 hours	Down to 34.6 hours. As with average hourly earnings (see below), the mix of jobs has skewed the reads on average weekly hours over the past few months, and we expect that to be the case, though to a smaller degree, in the June data. Even so, further job gains in lower-hour, lower-wage industry groups such as retail trade, education and health services, and leisure and hospitality services will put downward pressure on average weekly hours and should lead to a further decline in average hourly earnings, though a much smaller decline than that seen in May. Both metrics are normalizing after considerable distortions over the past three months.
June Average Hourly Earnings Friday, 7/2 Range: -2.0 to 0.5 percent Median: -0.5 percent	May = -1.0%	Down by 0.2 percent, which would nonetheless leave them up 6.2 percent year-on-year. Our calls on job growth, hours worked, and hourly earnings yield a 1.8 percent increase in aggregate private sector wage and salary earnings (down 4.7 percent year-on-year).
June Unemployment Rate Friday, 7/2 Range: 9.9 to 14.5 percent Median: 12.3 percent	May = 13.3%	Down to 11.7 percent. As with the estimate of nonfarm job growth, seasonal adjustment noise may also impact the estimate of the June unemployment rate. In a normal year, June is the month in which the bulk of younger (16-to-19 year-old) job seekers flock to the labor market, seeking/obtaining summer employment. The early end to this year's school term, however, meant that this influx of younger job seekers also came early – May saw the largest increases in the labor force and household employment amongst the 16-to-19 year-old age cohort on record in the not seasonally adjusted data. The seasonal adjustment factors, however, expect this increase in the June data and, as such, will "correct" for a surge that did not take place, meaning that measured June growth in the labor force and in household employment could be much smaller in the seasonally adjusted data than would otherwise be the case. Granted, this cohort accounts for a relatively small share of the overall labor force, but a large enough swing can move the needle, and there have been years in which this has been the case. We think this will be one of those years, and with the effect larger for the labor force than for household employment, it could hold down the measured unemployment rate. More fundamentally, BLS has noted that the measured unemployment rate has been understated in each of the past three months due to reporting errors – large numbers of laid off workers incorrectly reporting their status as "absent from work" rather than "unemployed." Though they have tried to fend off this issue in advance, BLS will not adjust the survey data to try to correct for this error, so it will bear watching as to whether or not the June unemployment rate is similarly impacted. Either way, given the spike in the number of people working part-time for economic reasons and the increase in the number of people marginally attached to the labor force, the "headline" (or, U3) unemployment rate is a very inadequate gauge of labor market slack at present. Instead, watch for the broader U6 measure, which stood at 21.1 percent in May, with a much wider gap between the U6 and U3 rates than is typically the case. It will be the U6 measure, not the U3 measure, that will be a better gauge of the recovery in the labor market.

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