

Indicator/Action
Economics Survey:
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Fed Funds Rate: Target Range Midpoint <i>(After the September 15-16 FOMC meeting):</i> 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%	In his address to the Jackson Hole conference last week, Federal Reserve Chairman Powell unveiled a shift in FOMC strategy under which the Committee will target an average inflation rate of 2.0 percent over time, though no specific time horizon was laid out. That decision was widely expected, but what is striking is the shift in language regarding “full employment;” whereas the former policy statement referred to “deviations from” full employment, the new policy statement refers to “shortfalls from” full employment. Put another way, roughly four decades gone from anything resembling a “wage-price spiral,” the FOMC seems to have let go of the notion that that moving beyond full employment would spark inflation pressures. Aside from any change in the approach to targeting inflation, this alone suggests the FOMC will not be changing the Fed funds rate target range for quite some time.
August ISM Manufacturing Index Tuesday, 9/1 Range: 53.0 to 56.5 percent Median: 54.7 percent	Jul = 54.2%	<u>Up</u> to 55.1 percent. Though it isn't unanimous, the regional Fed surveys of factory sector activity in August were on balance higher, while orders for core capital goods orders have been firmer than expected, trade flows have begun to improve, and consumer spending on goods has surpassed pre-pandemic levels, all of which support a further increase in the ISM Manufacturing Index. Amidst the rebound in manufacturing activity, there are indications of another round of stress on supplier delivery times, which could provide a lift to the ISM's headline index. As such, our equally weighted composite of the indexes of new orders, production, and employment will be a better gauge of underlying activity in the factory sector, and our forecast would have that composite rising to 56.6 percent. That said, while the factors we cite above are supportive of a rebound in manufacturing activity, they also suggest that any such rebound is somewhat tenuous, as any of those factors – global trade, capital spending, consumer spending – could change quickly.
July Construction Spending Tuesday, 9/1 Range: 0.5 to 3.0 percent Median: 1.0 percent	Jun = -0.7%	<u>Up</u> by 2.3 percent. Despite all evidence to the contrary, the June construction data showed a decline in residential construction outlays, thus demolishing our forecast for total construction spending in June. We look for a reversal in the July data.
July Factory Orders Wednesday, 9/2 Range: 2.0 to 9.2 percent Median: 5.8 percent	Jun = +6.2%	<u>Up</u> by 6.6 percent. July durable goods orders surprised us to the upside, and while that largely reflected stronger than anticipated motor vehicle orders, it nonetheless should propel total July factory orders solidly higher, and our forecast anticipates an assist from orders for nondurable goods.
July Trade Balance Thursday, 9/3 Range: -\$60.0 to -\$49.5 billion Median: -\$57.0 billion	Jun = -\$50.7 billion	<u>Widening</u> to -\$59.1 billion on a significantly larger deficit in the goods account. The advance data on July trade in goods show double-digit increases in both imports and exports, which reflects global trade flows beginning the process of normalizing. That process will be a long one – even with July's big jump, U.S. exports are still down 16 percent year-on-year. As trade flows continue to normalize, the monthly data could be more volatile than is typical for this series. One source of considerable uncertainty is the 2020 holiday shopping season, which itself is highly uncertain at this point. Normally, imports rise over the July through October period as retailers prepare for the holiday shopping season. This year figures to see more shopping from home, and retailers will look to extend the holiday shopping season (yes, apparently it can actually go on for even longer) as a means of complying with social distancing protocols for those shopping in stores. So, in these decidedly not normal times, there is no reason to expect the trade data to conform to normal seasonal patterns, which goes to our point about greater volatility in the trade data over coming months.
Q2 Nonfarm Labor Productivity (rev.) Thursday, 9/3 Range: 7.0 to 9.0 percent Median: 7.3 percent SAAR	Q1 (prelim)= +7.3% SAAR	<u>Up</u> at an annualized rate of 8.9 percent. The revised GDP data show real nonfarm business output contracted at an annualized rate of 37.1 percent in Q2, less harsh than the initial estimate of a 38.9 percent annualized contraction. As such, there should also be an upward revision to the initial estimate of Q2 labor productivity growth.
Q2 Unit Labor Costs (rev.) Thursday, 9/3 Range: 7.9 to 13.0 percent Median: 12.1 percent SAAR	Q1 (prelim)= +12.2% SAAR	<u>Up</u> at an annualized rate of 11.4 percent. If we are correct on the upward revision to productivity growth, the flip side of that is a downward revision to the initial estimate of growth in unit labor costs.
August ISM Non-Manufacturing Index Thursday, 9/3 Range: 56.5 to 61.0 percent Median: 57.1 percent	Jul = 58.1%	<u>Down</u> to 56.7 percent. Our forecast anticipates the business activity component will settle back a bit from its lofty levels of June and July, which is consistent with further expansion in the broad services sector but at a slower pace. As with the manufacturing survey (see above), slowing supplier delivery times could provide a boost to the headline non-manufacturing index, so look to the indexes of business activity, new orders, and employment for a more telling read on the broad services sector.

ECONOMIC PREVIEW



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<p>August Nonfarm Employment Range: 0.435 to 2.000 million jobs Median: 1.395 million jobs</p>	Friday, 9/4	Jul = +1.763 million jobs	<p><u>Up</u> by 866,000 jobs, with private sector payrolls <u>up</u> by 759,000 jobs and public sector payrolls <u>up</u> by 107,000 jobs. There are always lots of moving parts in any given monthly employment report, and here are some of the main things to watch for in the August report. 1) Will we get the typical August undershoot – in any given year, the initial estimate of August job growth is prone to significantly understate job growth, largely reflecting what is typically a low initial response rate to the BLS's August establishment survey. Over the past ten years, August job growth has been revised higher by an average of 61,000 jobs between the first and third estimates, with upward revisions of over 80,000 jobs in the past two years. While it will take two more months to have a definitive answer, watch the response rate to the August survey for an early clue. 2) Census hiring will inflate job public sector job growth. Between the July and August survey periods, Census hired 237,800 temporary workers – in a normal Census year, this hiring would take place in April and May but the pandemic pushed it back this year (these jobs will go away in the fall). 3) Will there be more noise in the data on hiring amongst state and local governments after the reported addition of 274,000 jobs in July. That increase was nothing more than seasonal adjustment noise stemming from what, thanks to the pandemic, was a much earlier end to the school year than is typically the case. We'll now start seeing the opposite effects play out in the data. While there were school districts which opened in August, many school districts across the U.S. delayed openings. Either way, with so much instruction taking place online, even if only on a temporary basis, there was likely a much smaller increase in education related employment – this includes support staffs in addition to teachers – this August than is typically the case. This could result in a decline in employment in this component in the seasonally adjusted data, which is what we've incorporated into our forecast. We could be a month early on this, but, either way, there will be a larger effect in the September data. 4) As for private sector hiring, focus on the breadth of hiring across industry groups. Hiring in May, June, and July was heavily concentrated amongst leisure and hospitality services, education and health services, and retail trade – the segments hit the hardest by the pandemic. Hiring across other industry groups was fairly shallow, and if that is again the case in the August data, it could signal a still-heightened degree of uncertainty over the course of the economy. 5) In the early phases of the pandemic, the vast majority of those who lost jobs reported being on temporary layoff, but the number reporting a permanent job loss was much higher in June and July, so watch for this split in the August data. 6) On a related point, the duration of unemployment for those on temporary layoff has steadily increased, suggesting that what began as temporary layoffs could be turning into longer-term layoffs, if not permanent job losses. As we noted upon the release of the April data, our fear was that this would end up being the case, so we'll be looking for more evidence of this in the August data while hoping to be proven wrong.</p>
<p>August Manufacturing Employment Range: 6,000 to 150,000 jobs Median: 50,000 jobs</p>	Friday, 9/4	Jul = +26,000 jobs	<p><u>Up</u> by 44,000 jobs.</p>
<p>August Average Weekly Hours Range: 34.4 to 34.5 hours Median: 34.5 hours</p>	Friday, 9/4	Jul = 34.5 hours	<p><u>Unchanged</u> at 34.5 hours.</p>
<p>August Average Hourly Earnings Range: -0.7 to 0.5 percent Median: 0.0 percent</p>	Friday, 9/4	Jul = +0.2%	<p><u>Up</u> by 0.3 percent, which would translate into a year-on-year increase of 4.7 percent, as we expect less distortion from the mix of jobs than seen in the past few months. Our calls on job growth, hours worked, and hourly earnings yield a 0.9 percent increase in aggregate private sector wage and salary earnings (down 3.1 percent year-on-year).</p>
<p>August Unemployment Rate Range: 9.1 to 10.4 percent Median: 9.9 percent</p>	Friday, 9/4	Jul = 10.2%	<p><u>Down</u> to 10.0 percent. In addition to a smaller increase in household employment than that seen in July, our forecast anticipates labor force participation will turn higher after having, somewhat oddly, fallen in July. The net result would be only a modest decline in the unemployment rate in August.</p>

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