ECONOMIC PREVIEW

REGIONS

Week of September 28, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 4-5 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 August data on personal income and spending (see below) will help quantify the impact of the expiration of the supplemental Unemployment Insurance benefits provided under the CARES Act. While the August employment report (see Page 2) is the highlight of the week, it is likely to come with considerable seasonal adjustment noise that could make interpreting the headline job growth number a bit tricky.
August Advance Trade Balance: Goods Tuesday, 9/29 Range: -\$83.9 to -\$78.5 billion Median: -\$83.6 billion	Jul = -\$79.3 billion	<u>Widening</u> to -\$83.6 billion.
September Consumer Confidence Tuesday, 9/29 Range: 85.0 to 93.0 Median: 90.1	Aug = 84.8	<u>Up</u> to 90.1 though, as always, our main interest will be in consumers' assessments of labor market conditions. The "jobs plentiful-jobs hard to find" spread turned negative in the August survey, at odds with the sharp decline in the unemployment rate. The two indicators are rarely out of alignment and, of the two, it was the decline in the jobless rate in August that surprised us more. As such, we'll be eager to see if consumers were more upbeat on labor market conditions in the September survey.
Q2 Real GDP – 3rd estimate Wednesday, 9/30 Range: -32.0 to -31.0 percent Median: -31.7 percent SAAR	Q2 – 2nd est. = -31.7% SAAR	<u>Contracting</u> at an annualized rate of 31.6 percent.
Q2 GDP Price Index – 3rd estimate Wednesday, 9/30 Range: -2.1 to -1.9 percent Median: -2.0 percent SAAR	Q2 – 2nd est. = -2.0% SAAR	<u>Down</u> at an annualized rate of 2.0 percent.
August Personal Income Thursday, 10/1 Range: -3.9 to 1.4 percent Median: -2.1 percent	Jul = +0.4%	<u>Down</u> by 2.1 percent. The uncertainty in forecasts – ours and others – of August personal income isn't so much the direction of change, it's the magnitude of the change. With the supplemental Unemployment Insurance benefits of \$600 per week provided under the CARES Act having expired in late-July, the August personal income data will show a large enough decline in transfer payments to drag total personal income lower. The extension of supplemental UI benefits via executive order will mitigate the hit to transfer payments but will not have had an impact on the August data. As such, the uncertainty in our forecast is around the magnitude of the decline in transfer payments that BEA will report, in turn adding uncertainty to our forecast of total personal income. To get a sense of the impact of the expiration of the supplemental UI benefits, were transfer payments to have held steady at their July level, our forecast would have total personal income up by 0.6 percent in August rather than the 2.1 percent decline we get when incorporating our estimate of the hit to transfer payments. Still, it is worth noting that between the increases in average hourly earnings, nonfarm employment, and average weekly hours, aggregate wage and salary earnings (the largest component of personal income) rose sharply in August. Our forecast would put private sector earnings even on an over-the-year basis – recall that in April they fell 8.2 percent year-on-year. Though we look for smaller increases than in July, rental income and nonfarm proprietors' income (a proxy for small business profits) should be supports for top-line personal income, and our forecast also anticipates a smaller decline in asset-based income than in July.
August Personal Spending Thursday, 10/1 Range: 0.4 to 1.3 percent Median: 0.8 percent	Jul = +1.9%	<u>Up</u> by 1.1 percent. Our forecast anticipates a 0.8 percent increase in spending on goods, most of which will be driven by growth in spending on consumer durables. Regardless of what we think of the Census Bureau's monthly retail sales data (the short answer is "not a lot"), given that control retail sales are an input into the BEA's estimate of consumer spending on goods, we have to be mindful of the reported 0.1 percent decline in control retail sales in August, hence our low expectations for the BEA's estimate of spending on nondurable consumer goods. But, we do expect the BEA's estimate of spending on consumer durable goods to "outperform" the retail sales data. Still, it is the BEA's estimate of spending on services, which account for almost 70 percent of total consumer spending, that will be of the most interest. Our forecast anticipates a 1.2 percent increase in services spending but, even so, this would leave the level of services spending as of August 8.2 percent below the level as of February (our forecast would put the level of spending on goods 7.0 percent above that of February). Though the surge in transfer payments played a role in the spike in the personal saving rate in Q2, what is often overlooked is that reduced discretionary spending, mostly on services, also played a key role. This is one reason we believe the elevated level of savings is highly concentrated amongst upper income households. That said, the saving rate will have fallen further in August.

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August PCE Deflator Range: 0.2 to 0.4 percent Median: 0.3 percent	Thursday, 10/1	Jul = +0.3%	Up by 0.3 percent, which would yield a year-on-year increase of 1.2 percent. We look for the Core PCE Deflator to be up by 0.3 percent, which would translate into a year-on-year increase of 1.4 percent.
September ISM Manufacturing Index Range: 54.0 to 57.4 percent Median: 56.0 percent	Thursday, 10/1	Aug = 56.0%	Up to 56.8 percent. Our forecast anticipates the indexes of orders and production will remain notably elevated, and the headline index should also get a boost from further slowing in supplier delivery times. One puzzling element of the ISM data over the past few months is that the employment index has remained below 50.0 percent despite the BLS's monthly employment reports showing growth in manufacturing payrolls, and we expect this to again be the case in the September data. While the body of data, including the ISM's survey, shows continued expansion in manufacturing activity, one caveat is that it is not yet clear to what extent this reflects inventories being replenished after having been drawn down sharply in the spring/early summer and to what extent it reflects organic growth. It will take a few more months to know the answer, but that answer will have big implications for the manufacturing sector as we move through Q4.
August Construction Spending Range: 0.3 to 1.2 percent Median: 0.7 percent	Thursday, 10/1	Jul = +0.1%	Up by 0.4 percent.
August Factory Orders Range: 0.2 to 4.0 percent Median: 1.2 percent	Friday, 10/2	Jul = +6.2%	Up by 0.5 percent.
September Nonfarm Employment Range: 0.400 to 1.100 million jobs Median: 0.840 million jobs	Friday, 10/2	Aug = +1.371 million jobs	Up by 868,000 jobs, with private sector payrolls up by 936,000 jobs and public sector payrolls down by 68,000 jobs thanks in part to over 40,000 temporary Census jobs running off the books. September's headline job growth number will likely be flattered by seasonal adjustment, as the typical seasonal declines in employment in industries such as leisure and hospitality services, retail trade, and construction will either not be present in this September's data or will be much smaller than is typically the case. The state/local government sector is also a potential source of seasonal adjustment noise. As such, it will be important to check the not seasonally adjusted data to gauge the degree of seasonal adjustment noise, but, then again, we always think it important to check the raw data regardless of the month or the data series in question. Either way, other details of the September data to watch include: 1) the duration of unemployment, particularly amongst those on temporary layoff; 2) whether, or to what extent, the number of permanent job losses increased further after sharp increases over the prior three months; 3) whether or not there is any unwinding of "PPP effects" which may have been inflating payrolls in leisure and hospitality services, retail trade, and health services over the past few months; and 4) the extent to which the initial estimate of August job growth is revised – in a typical year, the initial August print is prone to significant upward revision, but our sense is that will not be the case this year. After all, there has been nothing typical about this year.
September Manufacturing Employment Range: 10,000 to 50,000 jobs Median: 40,000 jobs	Friday, 10/2	Aug = +29,000 jobs	Up by 44,000 jobs.
September Average Weekly Hours Range: 34.5 to 34.6 hours Median: 34.6 hours	Friday, 10/2	Aug = 34.6 hours	Unchanged at 34.6 hours.
September Average Hourly Earnings Range: 0.0 to 0.3 percent Median: 0.2 percent	Friday, 10/2	Aug = +0.4%	Up by 0.2 percent, which would translate into a year-on-year increase of 4.8 percent. Our calls on job growth, hours worked, and hourly earnings yield a 1.0 percent increase in aggregate private sector wage and salary earnings (down 1.7 percent year-on-year).
September Unemployment Rate Range: 7.8 to 9.2 percent Median: 8.2 percent	Friday, 10/2	Aug = 8.4%	Down to 8.2 percent. Our forecast assumes a much smaller increase in household employment than that seen in August along with a further increase in labor force participation.

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