ECONOMIC PREVIEW

REGIONS

Week of October 5, 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 September employment report showed nonfarm payrolls rose by 661,000 jobs, with private sector payrolls up by 877,000 jobs and public sector payrolls down by 216,000 jobs. The unemployment rate fell to 7.9 percent while the broader U6 measure, which also accounts for underemployment, fell to 12.8 percent. The problem with these numbers, however, is that none of them are what they seem. Digging into the details beneath these numbers shows the September employment report is riddled with seasonal adjustment noise, and without accounting for this noise, any conclusions based on the "headline" numbers cited above are inherently flawed. Relative to what the seasonally adjusted data show, the not seasonally adjusted data show that the increase in private sector payrolls was much smaller, the decrease in public sector payrolls was nowhere near as harsh, the drop in labor force participation was steeper, and the increase in household employment was smaller. For instance, the entire reported increase in leisure and hospitality services payrolls, 318,000 jobs, is due to seasonal adjustment; unadjusted payrolls in leisure and hospitality services fell by 107,000 jobs in September, but this is a much smaller decline than is typical for the month. Conversely, the reported decline of 280,500 jobs in the education segment of state and local governments is a product of seasonal adjustment, as the increase of 948,200 jobs on a not seasonally adjusted basis is smaller than the typical September increase. Though these two instances may seem to negate each other, if nothing else they change the mix between private sector and public sector job growth, and the weakening in the former is worrisome. Moreover, coming months will bring more such seasonal adjustment follies, as what for years were normal seasonal patterns have been significantly disrupted, with hiring patterns now far more a reflection of the economy continuing to reopen and adjust to the changes brought on by the pandemic. Any such seasonal adjustment distortions will make it much harder to interpret the monthly changes in the data. Those elements of the September data that are free of seasonal adjustment issues are not all that encouraging. The duration of unemployment increased further, with the median duration now at 18.2 weeks, with 2.405 million people unemployed for 27 weeks or more, more than double the number as of February. Moreover, of those classified as being on temporary layoff, 69.1 percent had been unemployed for at least 15 weeks as of September, far and away the highest share on record. The duration data suggest a growing number of temporary job losses have morphed into permanent job losses or are in the process of doing so. At the same time, the number of job losers reporting a permanent job loss continues to climb, standing at 3.756 million as of September, roughly three times the number as of February. Another discouraging data point from the September data is the sharp decline in labor force participation amongst those in the 25-to-54 year-old age cohort, often referred to as the "prime working age" population – a decline that more than accounted for the decline in the total labor force that pushed the unemployment rate lower. None of this is to say the labor market is not healing. It is. But, the rate at which it is healing has slowed and figures to slow further in the months ahead, particularly in light of the number of large-scale job cuts announced over recent weeks. The recovery in the labor market is seeming more and more like a two steps forward-one step back process. With the pandemic by no means under control, the worry is that over coming months the steps forward get smaller while the steps back get larger. While we do not see that as the most likely path, neither do we think it can be ruled out.
Sep. ISM Non-Manufacturing Index Monday, 10/5 Range: 54.5 to 58.0 percent Median: 56.3 percent	Aug = 56.9%	Down to 56.1 percent. Our forecast anticipates further declines in the indexes of business activity and new orders, which will weigh on the headline index number despite what should be some support from slower supplier delivery times. One wild card will be the index of employment which, like its manufacturing survey counterpart, has indicated contractions in employment over the past several months even as the BLS data show sizable increases in employment. On the whole, however, we look for the ISM's survey to indicate that growth in the broad services sector is settling into a more sustainable pace.
August Trade Balance Tuesday, 10/6 Range: -\$67.3 to -\$61.8 billion Median: -\$66.0 billion	Jul = -\$63.6 billion	Widening to -\$67.2 billion.

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