ECONOMIC PREVIEW

REGIONS

Week of November 30, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 15-16 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%	For as much promise as progress on an effective COVID-19 vaccine holds, the near-term path ahead for the U.S. economy has rapidly become much rockier and more uncertain. The ongoing spike in COVID-19 cases, which is showing no signs of letting up, is leading to renewed restrictions on economic and social activity. That these restrictions are not, at least not yet, as biting as those seen in the spring does not mean the labor market and the broader economy won't be adversely impacted. Indeed, initial claims for unemployment insurance have risen in each of the past two weeks, the first back-to-back increases since July. At the same time, consumer confidence has begun to waver, and is likely to drift lower until the upturn in COVID-19 cases begins to reverse. Another near-term threat is that millions of people are facing an income cliff, as funding for the last of the supports for those displaced from the labor market by the pandemic provided under the CARES Act expires on December 26, and the political reality seems to dictate that no additional financial support for small businesses and households will be forthcoming until the new administration and the new Congress are in place. Still, it does help to remember that at present broad segments of the economy have yet to show any signs of slowing down despite the upturn in cases, and while that could change in short order, it is more likely that the upturn in COVID-19 cases and restrictions on economic activity lead to a slower pace of economic growth in the near term as opposed to pushing the economy back into contraction. While the November employment report (see Page 2) is the highlight of this week's slate of data releases, the Fed's updated Beige Book (Wednesday 2:00 EST) should shed some light on the extent to which the upturn in COVID-19 cases has impacted the economy.
November ISM Manufacturing Index Tuesday, 12/1 Range: 56.5 to 59.5 percent Median: 57.6 percent	Oct = 59.3%	Down to 59.1 percent. In the October survey, the ISM's index of new orders rose to its highest level since January 2004, and we look for some, but not much, of that gain to be given back in the November survey. Manufacturers are still working to fill in the gaps left by the shutdowns in production in the spring and the subsequent robust rebound in demand for consumer and capital goods. The ISM's gauge of customer inventories continues to bump along at the lowest level in more than a decade, which suggests further gains in new orders and production. At the same time, supply chains are becoming stretched, so we look for slower supplier delivery times to be supportive of the ISM's headline index. Even if our forecast is proven to be a bit ambitious, the broader point will remain the same, i.e., the manufacturing sector remains in the midst of an expansion that is becoming more deeply rooted. The obvious caveat, however, is that there are near-term downside risks stemming from rising COVID-19 case counts and corresponding restrictions on economic activity.
October Construction Spending Tuesday, 12/1 Range: 0.3 to 1.4 percent Median: 0.8 percent	Sep = +0.3%	Up by 1.4 percent.
November ISM Non-Manufacturing Index Thursday, 12/3 Range: 54.7 to 57.6 percent Median: 56.2 percent	Oct = 56.6%	Up to 56.8 percent. Service providers will feel the adverse effects of the ongoing spike in COVID-19 cases and renewed restrictions on economic activity well before producers of goods will feel them. More specifically, it is providers of personal services that are most at risk from COVID-related disruptions in demand/restrictions on activity. In terms of the ISM survey, any weakness on this front in the November data is likely to be offset by further growth elsewhere amongst non-manufacturing industry groups such as transportation/warehousing, construction, wholesale trade, and professional services. As such, even if the ISM's headline index falls short of our forecast, the broader non-manufacturing sector will have continued to expand in November though, again, the near-term risks are to the downside.
October Factory Orders Friday, 12/4 Range: 0.5 to 1.2 percent Median: 0.8 percent	Sep = +1.1%	Up by 0.9 percent. We know from the advance data that durable goods orders logged another solid gain in October, and our forecast assumes a more modest advance in orders for nondurable goods. Orders and shipments of core capital goods, which feed into the GDP data on business investment in equipment and machinery, have shown surprising strength over recent months, with both orders and shipments comfortably above their pre-pandemic level. That this strength persisted into October puts Q4 growth in business investment off to a solid start.
October Trade Balance: Goods Friday, 12/4 Range: -\$66.0 to -\$64.5 billion Median: -\$65.0 billion	Sep = -\$63.9 billion	Widening to -\$64.8 billion thanks to a larger deficit in the goods account.

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November Nonfarm Employment Friday, 12/4 Range: 320,000 to 700,000 jobs Median: 490,000 jobs	Oct = +638,000 jobs	Up by 481,000 jobs, with private sector payrolls up by 587,000 jobs and public sector payrolls down by 106,000 jobs thanks in part to over 93,000 temporary Census jobs running off the books between the October and November survey periods. As with the prior two monthly reports, the November employment report is likely to include a high degree of seasonal adjustment noise, which in the seasonally adjusted data will lead to inflated job counts in some industry groups and deflated job counts in others. For instance, normal seasonal patterns would yield a decline of roughly 190,000 jobs in leisure and hospitality services in the not seasonally adjusted data for November, but we do not expect anywhere near that large of a decline, the upturn in COVID-19 cases and corresponding restrictions on activity notwithstanding. If we are correct, then the seasonally adjusted data will show an increase in jobs in this industry group, a potentially sizable one. In contrast, normal seasonal hiring would lead to an increase of roughly 380,000 jobs in retail trade on a not seasonally adjusted basis in November. But, given how atypically strong retail hiring was in October and a greater emphasis on online sales this year, we look for the not seasonally adjusted data to show a smaller than normal November increase in retail trade payrolls, which we expect will print as a decline in the seasonally adjusted data. Construction, warehousing/delivery, and state and local government are other categories in which seasonal adjustment noise could distort measured job growth on a seasonally adjusted basis. This is another illustration of why we repeatedly stress the importance of examining the raw, or, not seasonally adjusted, data rather than just simply taking the seasonally adjusted headline number and rushing to craft a narrative around it. That has been even more important this year, when what in the past would have been typical seasonal patterns in the economic data have been disrupted by the pandemic and the efforts to stem its spread. To be sure, the weekly data on initial jobless claims point to downside risk in forecasts of November job growth, but any such effects are likely to have been mitigated by the November survey period falling earlier in the month than is typically the case. As such, we think it likely that any weakening in labor market conditions will be much more apparent in the December employment report than in the November report.
November Manufacturing Employment Friday, 12/4 Range: 22,000 to 55,000 jobs Median: 43,000 jobs	Oct = +38,000 jobs	Up by 46,000 jobs.
November Average Weekly Hours Friday, 12/4 Range: 34.7 to 34.8 hours Median: 34.8 hours	Oct = 34.8 hours	Unchanged at 34.8 hours. There is a chance that shorter workweeks in retail trade and leisure and hospitality services pull the overall average lower, and if this does prove to be the case, growth in aggregate wage and salary earnings will come in lower than our forecast anticipates (see below).
November Average Hourly Earnings Friday, 12/4 Range: 0.0 to 0.3 percent Median: 0.1 percent	Oct = +0.1%	Up by 0.1 percent, which would translate into a year-on-year increase of 4.2 percent. The November survey period ended prior to the 15th of the month, which tends to bias measured growth in hourly earnings lower, hence our expectations for only a middling increase. Our calls on job growth, hours worked, and hourly earnings yield a 0.6 percent increase in aggregate private sector wage and salary earnings (down 0.7 percent year-on-year).
November Unemployment Rate Friday, 12/4 Range: 6.0 to 7.0 percent Median: 6.8 percent	Oct = 6.9%	Down to 6.7 percent. After spiking to 14.7 percent in April, the unemployment rate has fallen at a surprisingly rapid pace. At some point, however, further declines in the jobless rate will be harder to come by, and we think we're at that point. That the pace of job growth is decelerating is one thing that leads us to think so. At the same time, the duration of unemployment continues to lengthen – the median duration rose to 19.3 weeks in October – which suggests that, to an increasing degree, those still out of work are having a tougher time landing a new job, or that their old jobs are gone for good. As of October, there were 3.556 million people who had been out of work for 15 weeks or longer, the highest total since March 2014, and we expect this total will continue rising in the months ahead. While we may be wrong about the timing, i.e., the jobless rate may have fallen further in November than we expect, it seems a given that at some point further declines in the jobless rate will be harder to come by.

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