

Indicator/Action
Economics Survey:
Last
Actual:
Regions' View:

Fed Funds Rate: Target Range Midpoint <i>(After the January 26-27 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%	The December employment report is the focal point this week, and all signs point to a sharp slowdown in the pace of job growth, though the possibility of an outright decline in nonfarm payrolls cannot be dismissed. Also on tap this week is Wednesday's release of the minutes of the December FOMC meeting. The Committee's discussion around the enhanced forward guidance on the Fed's asset purchases will be of interest.
November Construction Spending Monday, 1/4 Range: 0.6 to 1.4 percent Median: 1.1 percent	Oct = +1.3%	<u>Up</u> by 1.2 percent.
December ISM Manufacturing Index Tuesday, 1/5 Range: 55.5 to 58.0 percent Median: 56.5 percent	Nov = 57.5%	<u>Down</u> to 56.2 percent. The U.S. economy clearly lost momentum over the final weeks of 2020, but the manufacturing sector was impacted to a far lesser degree than the broader services sector. The ISM's gauge of new orders has shown strong, and broad based, growth over the past several months, to the point that production has not kept pace and supply chains are being stressed. Between steadily rising new orders, growing backlogs of unfilled orders, and customer inventories remaining on the lean side, all signs point to continued growth in employment and output in the factory sector. But, recall from the November survey that labor supply was a material issue, with rising COVID-19 case counts impacting both manufacturers and suppliers, to the point that the ISM's survey showed a decline in factory employment which in some instances led to production lines being shut down. Absenteeism remains a pressing issue for manufacturers, which we expect will keep the ISM's employment index below 50.0 percent while weighing on the production index. To the point that suppliers also remain impaired by labor supply issues, slower delivery times would provide some support for the headline index. Our forecast anticipates further solid growth in new orders which, if we're correct on labor supply, would lead to larger backlogs of unfilled orders. The labor supply issues facing manufacturers are transitory, and our forecast would leave the headline index comfortably above the 50.0 percent break between contraction and expansion. The new orders index will be a key indicator of whether or not that will remain the case in the months ahead.
November Factory Orders Wednesday, 1/6 Range: 0.5 to 2.0 percent Median: 0.8 percent	Oct = +1.0%	<u>Up</u> by 0.8 percent.
November Trade Balance Thursday, 1/7 Range: -\$67.8 to -\$62.0 billion Median: -\$65.2 billion	Oct = -\$63.1 billion	<u>Widening</u> to -\$67.6 billion. With spikes in imports of both consumer goods and capital goods, the deficit in the goods account in November is the largest on record, leading to a widening of the overall trade deficit.
December ISM Non-Manufacturing Index Thursday, 1/7 Range: 53.0 to 55.8 percent Median: 54.5 percent	Nov = 55.9%	<u>Down</u> to 53.7 percent. While the headline index will show continued expansion, we look for that to be less broad based than has been the case over recent months, with industry groups such as construction, business services, transportation/warehousing, and finance seeing further growth but industry groups such as retail trade, recreation, lodging, and food services not faring nearly as well. While our forecast anticipates both remaining above 50.0 percent, the indexes of employment and new orders likely fell in December, with the latter being a signal of whether the slowdown seen in many services industries in late-2020 will carry into the early phases of 2021.
December Nonfarm Employment Friday, 1/8 Range: -150,000 to 345,000 jobs Median: 66,000 jobs	Nov = +245,000 jobs	<u>Up</u> by 73,000 jobs, with private sector payrolls <u>up</u> by 62,000 jobs and public sector payrolls <u>up</u> by 11,000 jobs. Though the data on initial claims for unemployment insurance are, let's say, less than pristine these days, it is nonetheless hard to overlook the fact that the four-week moving average of initial claims rose between the BLS's November and December establishment survey weeks. This points to a much slower pace of job growth in December, if not an outright decline in nonfarm employment. In a normal year, December is a strong month for hiring in retail trade, but we know that not to have been the case in December 2020, and weakness in the raw, or, not seasonally adjusted, data will be significantly amplified in the seasonally adjusted data. As such, we expect retail trade to be a meaningful drag on top-line job growth; while stepped-up hiring in transportation, warehousing, and delivery services will provide somewhat of an offset, that won't come close to making up the gap left by retail trade. We also look for weakness in leisure and hospitality services to weigh on top-line job growth. While more temporary jobs tied to the 2020 Census ran off the books, at just over 3,000 jobs, the decline in December was much smaller than those seen over the past few months, and we look for friendly seasonal adjustment to yield a modest increase in employment on the state and local government levels.

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December Manufacturing Employment Range: 5,000 to 40,000 jobs Median: 17,000 jobs	Friday, 1/8	Nov = +27,000 jobs	<u>Up</u> by 16,000 jobs.
December Average Weekly Hours Range: 34.7 to 34.8 hours Median: 34.8 hours	Friday, 1/8	Nov = 34.8 hours	<u>Unchanged</u> at 34.8 hours. If we are correct in our assumption that weakness in retail trade and leisure and hospitality services will be a meaningful drag on net job growth, then the composition of employment should keep average weekly hours elevated and contribute to a larger increase in average hourly earnings than would otherwise be the case (see below).
December Average Hourly Earnings Range: 0.1 to 0.4 percent Median: 0.2 percent	Friday, 1/8	Nov = +0.3%	<u>Up</u> by 0.3 percent, which would translate into a year-on-year increase of 4.5 percent. Our calls on job growth, hours worked, and hourly earnings yield a 0.3 percent increase in aggregate private sector wage and salary earnings (down 0.5 percent year-on-year). The BLS's December establishment survey period ended prior to the 15 th of the month, and historically an early end to the survey period has tended to bias the estimate of average hourly earnings lower. Our above-consensus forecast is based on our expectations for the composition of employment, and if we're wrong on that, then we'll also be wrong on average weekly hours, average hourly earnings, and aggregate hourly earnings – kind of an in for a penny, in for a pound forecast.
December Unemployment Rate Range: 6.6 to 6.9 percent Median: 6.7 percent	Friday, 1/8	Nov = 6.7%	<u>Up</u> to 6.8 percent. If job growth slows as much as we anticipate, that should be sufficient to push the jobless rate higher. But, if job growth slows as much as we anticipate and the jobless rate stays the same or declines, that would mean labor force participation has fallen even further. As it is, there were 4.1 million fewer persons in the labor force in November than in February, with much of this gap coming amongst the 25-to-54 year-old age cohort, or, the “prime working age population.” A further decline in participation amongst this group would be a telling sign of the extent to which confidence in the labor market, and the broader economy, deteriorated over the final weeks of 2020. Either way, an important point to keep in mind even should the economy be much stronger over the second half of 2021 as we and others expect will be the case is that the unemployment rate will be an inadequate, and incomplete, measure of the extent of the recovery in the labor market. Any meaningful assessment of that recovery will have to account for labor force participation as well as for the jobless rate.

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