

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

<b>Fed Funds Rate: Target Range Midpoint</b> <i>(After the March 16-17 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 ISM's survey of the factory sector (see below) will be the first look at how unusually harsh winter weather disrupted economic activity in February. The reality is that much of the economic data for the month of February will be meaningfully impacted by the unusually harsh winter weather but being able to properly quantify those effects ahead of the releases is a tall order. As such, it's going to be hard to have much faith in forecasts of the high frequency indicators, and of more importance will be trying to sort out the signal from the noise in the data. What will help do that is keeping in mind the patterns in place prior to February and then determining the extent to which the distortions in patterns of economic activity will prove to be transitory or more lasting. Most of what we'll see in the February data will fall into the former category, and the March data will likely show at least partial reversals of whatever the February data bring.
<b>February ISM Manufacturing Index</b> Monday, 3/1 Range: 57.1 to 60.2 percent Median: 58.7 percent	Jan = 58.7%	<u>Up</u> to 59.3 percent. Harsh winter weather disrupted activity across a wide swath of the manufacturing sector in February, much of which should be captured in the ISM's survey. A significant chunk of the nation's refinery capacity was knocked offline, motor vehicle plants from Texas up through the Midwest were idled for a time, and workers in many locations were unable to get to their jobs, all of which helped hold down factory output. We do, however, expect the ISM's production index to remain above 50 percent despite declining in February. Also, it is important to keep in mind that if supplier delivery times were slowed significantly due to weather effects, as seems likely, that will be a support to the headline index number. The calculation of the headline index interprets slower delivery times as a sign of rising demand, and our forecast anticipates this will add a full point to the headline index. We also anticipate another month of strong growth in new orders, which will also support the headline index. Though it doesn't enter into the calculation of the headline index, the prices paid component will likely get much more attention than is typically the case. December saw the prices paid index rise to its highest level since April 2011, and in each of the past two months all 18 industry groups reported paying higher input costs. Our sense is that manufacturers have more pricing power in the current environment than has been the case over the past several years, and if this is correct then those higher input costs will be passed along in the form of higher prices for intermediate and final goods. This is definitely something to watch amid market-based measures showing rising inflation expectations. To the point we made above, prior to February the factory sector was on a solid run, with broad based expansion across most industry groups within the broad sector. As such, even if the ISM's February index underperforms expectations, that will be an interruption in, not a reversal of, the ongoing expansion in the factory sector.
<b>January Construction Spending</b> Monday, 3/1 Range: 0.3 to 1.0 percent Median: 0.7 percent	Dec = +1.0%	<u>Up</u> by 0.8 percent.
<b>February ISM Non-Manufacturing Index</b> Wed., 3/3 Range: 57.5 to 61.1 percent Median: 58.7 percent	Jan = 58.7%	<u>Up</u> to 59.2 percent. As in the manufacturing survey, we expect further growth in new orders and slower delivery times to provide a lift to the headline index number. There were signs that activity in the broader services sector was picking up in February prior to the weather-related disruptions.
<b>Q4 Nonfarm Labor Productivity -- Revised</b> Thursday, 3/4 Range: -4.8 to -4.5 percent Median: -4.6 percent SAAR	Q4 (prelim.) = -4.8% SAAR	<u>Down</u> at an annualized rate of 4.6 percent. Revisions show real output in the nonfarm business sector grew at an annualized rate of 5.5 percent in Q4, up slightly from the initial estimate of 5.3 percent growth. This should lead to a slightly slower pace of contraction in nonfarm labor productivity than was first reported.
<b>Q4 Unit Labor Costs -- Revised</b> Thursday, 3/4 Range: 6.1 to 6.8 percent Median: 6.5 percent SAAR	Q4 (prelim.) = +6.8% SAAR	<u>Up</u> at an annualized rate of 6.2 percent. We expect the revised data to show slower growth in labor compensation than initially reported which, along with a less harsh decline in productivity, should yield slower growth in unit labor costs (the labor cost of producing each unit of output) than in the BLS's initial estimate.
<b>January Factory Orders</b> Thursday, 3/4 Range: 0.4 to 3.0 percent Median: 1.1 percent	Dec = +1.0%	<u>Up</u> by 2.3 percent reflecting a jump in orders for durable goods and a smaller, but still solid, increase in orders for nondurable goods.
<b>January Trade Balance</b> Friday, 3/5 Range: -\$68.2 to -\$65.5 billion Median: -\$67.3 billion	Dec = -\$66.6 billion	<u>Widening</u> to -\$67.6 billion, mainly reflecting a larger deficit in the goods account.

# ECONOMIC PREVIEW



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## Last

### Actual:

### Regions' View:

<b>February Nonfarm Employment</b> Range: 43,000 to 350,000 jobs Median: 200,000 jobs	Friday, 3/5	Jan = +49,000 jobs	<u>Up</u> by 266,000 jobs, with private sector payrolls <u>up</u> by 292,000 jobs and public sector payrolls <u>down</u> by 26,000 jobs. Expectations of top-line job growth are all over the map, as indicated in the range of estimates. Oddly enough, the February employment report should be less impacted by February's harsh winter weather than almost all of the other top tier data releases, as the BLS's establishment survey period ended before the worst of the weather struck. There were reports that some segments of the broad leisure and hospitality industry group had begun to take on more workers in February ahead of an anticipated burst of demand in the spring. More broadly, however, the virtual standstill in private sector hiring in January was at odds with improving economic conditions and the loosening of restrictions on activity seen across much of the U.S. during the month. As such, we expect a sizable increase in private sector services payrolls while manufacturing payrolls (see below) likely bounced back after January's decline ended a run of eight straight monthly increases. As of January, the level of nonfarm employment stood 9.892 million jobs below the pre-pandemic level, with leisure and hospitality services accounting for roughly 40 percent of this shortfall. The gap in leisure and hospitality services payrolls will not narrow to a meaningful degree until the economy is more fully reopened, which in turn is contingent upon there being much more progress on the vaccination front.
<b>February Manufacturing Employment</b> Range: 0 to 25,000 jobs Median: 13,000 jobs	Friday, 3/5	Jan = -10,000 jobs	<u>Up</u> by 22,000 jobs.
<b>February Average Weekly Hours</b> Range: 34.8 to 35.0 hours Median: 34.9 hours	Friday, 3/5	Jan = 35.0 hours	<u>Down</u> to 34.8 hours. One of the, for lack of a better term, quirks of the January employment report was that while private sector hiring came to a virtual halt, the length of the average workweek increased. Most of the broad industry groups reported longer workweeks – none reported a shorter workweek – with the biggest increase in average weekly hours coming in leisure and hospitality services. Adding hours rather than workers could be a sign that firms were having trouble finding qualified workers but we think it more likely was a reflection of the heightened uncertainty, on the public health front and on the economic front, confronting firms as 2021 kicked off. That our forecast anticipates a decline in the average length of the workweek goes hand-in-hand with our above-consensus forecast of growth in nonfarm payrolls, and if we're wrong on job growth, we'll likely be wrong on hours worked. This isn't a mere accounting issue – keep in mind that each one-tenth of an hour change in the average length of the workweek has a powerful effect on aggregate hours worked and aggregate wage and salary earnings (see below).
<b>February Average Hourly Earnings</b> Range: 0.0 to 0.3 percent Median: 0.2 percent	Friday, 3/5	Jan = +0.2%	<u>Up</u> by 0.2 percent, which would translate into a year-on-year increase of 5.3 percent. Our calls on job growth, hours worked, and hourly earnings yield a 0.1 percent decline in aggregate private sector wage and salary earnings (down 0.3 percent year-on-year).
<b>February Unemployment Rate</b> Range: 6.1 to 6.5 percent Median: 6.4 percent	Friday, 3/5	Jan = 6.3%	<u>Up</u> to 6.4 percent. Our forecast anticipates a rebound in labor force participation after a sizable decline in the labor force in January. As of January, there were roughly 4.3 million fewer people in the labor force than there were last February, which means the unemployment rate is a highly incomplete measure of the degree of labor market slack. As such, there are two gaps to be mindful of – the gap in employment and the gap in participation – and the labor market won't be considered healed until both gaps are closed.

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