ECONOMIC PREVIEW

REGIONS

Week of May 31, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 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%	As we do with each month's data, we went through the April data on nonfarm employment across industry groups and on different geographic levels, i.e., national, state, and metro area, and looked at the data on both a not seasonally adjusted and a seasonally adjusted basis. The more time we spent going through the April data, the less sense we could make of it. The reality, however, is that the numbers are what the numbers are, regardless of what we think of them or might be able to make of them. This week brings another chance, in the form of the May employment report. Here's hoping for more clarity and less confusion than the April report brought.
May ISM Manufacturing Index Tuesday, 6/1 Range: 59.0 to 63.5 percent Median: 60.9 percent	Apr = 60.7%	Down to 60.3 percent. As we've been noting over recent months, the issue in the manufacturing sector is not lack of demand, it's the ability to meet that demand, though, to an increasing degree, that seems to be true in the broader economy. We expect the details of the May survey to reinforce our view. We look for the ISM's gauge of new orders to have risen, but expect their indexes measuring inventories and production to have retreated, thus weighing on the headline index. Supply chain and logistics bottlenecks and labor supply constraints are weighing on manufacturers and are holding down growth in factory output. At the same time, increases in input costs show no signs of letting up, and after having hit its highest level since July 2008 in April, we expect the prices paid index to have risen further in May. At the same time, already swollen backlogs of unfilled orders are likely to have gotten larger. We've begun to wonder whether the combination of growing order backlogs and uncertainty over input cost and availability would lead firms to stop taking new orders which, to our earlier point, is what many homebuilders have begun to do. If so, that would be a drag on the headline index. To be sure, the ISM's headline index will point to further expansion in the manufacturing sector, but the pace of expansion could be much faster were it not for supply side constraints becoming more binding.
April Construction Spending Tuesday, 6/1 Range: -0.5 to 1.0 percent Median: 0.3 percent	Mar = +0.2%	Up by 0.3 percent.
Q1 Nonfarm Labor Productivity -- revised Thursday, 6/3 Range: 5.4 to 6.2 percent Median: 5.6 percent SAAR	Q1 – pre = +5.4% SAAR	Up at an annualized rate of 5.6 percent. The revised GDP data show real output in the nonfarm business sector grew at an annualized rate of 8.6 percent in Q1, slightly faster than the initial estimate of 8.4 percent. Though the monthly employment data suggest a modest upward revision to aggregate hours worked, we nonetheless look for labor productivity growth to have been slightly faster in Q1 than initially reported.
Q1 Unit Labor Costs – revised Thursday, 6/3 Range: -0.6 to 2.1 percent Median: -0.4 percent SAAR	Q1 – pre = -0.4% SAAR	Down at an annualized rate of 0.5 percent. If we are correct in expecting productivity growth to be revised higher, the flip side would be a slightly larger decline in unit labor costs (the per-unit labor cost of each unit of output produced). One caveat is that the revised Q1 GDP data suggest an upward revision to labor compensation as measured in the productivity data, which would lead to unit labor costs being higher than our forecast anticipates.
May ISM Non-Manufacturing Index Thursday, 6/3 Range: 60.4 to 66.0 percent Median: 63.0 percent	Apr = 62.7%	Up to 65.4 percent. We look for the ISM's survey to show a faster pace of business activity in May, though construction and transportation/warehousing could act as drags based on what we've seen in other data sources. As with the counterpart survey of the manufacturing sector, the key metrics to watch here will be new orders, order backlogs, supplier delivery times, and prices paid. The prices paid index in the non-manufacturing survey rose to its highest point since July 2008 in April and likely rose further in May. Service providers generally have more latitude to pass higher input prices along to consumers, and between higher input costs, higher transport costs, and higher labor costs, we look for services prices as measured in the various gauges of retail-level inflation to accelerate further in the months ahead.
April Factory Orders Friday, 6/4 Range: -0.7 to 1.3 percent Median: -0.1 percent	Mar = +1.1%	Down by 0.3 percent. The advance data show durable goods orders fell sharply in April, but we expect much of this decline to be offset by an increase in orders for nondurable goods. Durable goods orders were dragged down by a sizable decline in motor vehicle orders, reflecting ongoing supply chain issues in that industry group. At the same time, however, orders for core capital goods, an indicator of business investment in machinery and equipment as measured in the GDP data, posted their largest monthly increase since August.

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May Nonfarm Employment Range: 335,000 to 1,000,000 jobs Median: 650,000 jobs	Friday, 6/4	Apr = +266,000 jobs	Up by 693,000 jobs, with private sector payrolls up by 632,000 jobs and public sector payrolls up by 61,000 jobs. Given that we still do not know whether the surprisingly small increase in nonfarm employment in April reflected noise in the data, pressing labor supply constraints, or some combination of the two, making a forecast of May job growth may seem a fool's errand, but that's never stopped us before and it won't stop us now. Wait, what? In any event, we think the April data were more noise than signal, but that does not mean labor supply constraints aren't holding down hiring, as we think firms would have taken on more workers had they been able to. If labor supply constraints are less binding than we assume, it would follow that the May data will show a larger increase in private sector payrolls, a smaller increase in average hourly earnings, and a shorter workweek than our forecast anticipates. Whatever the increase in private sector payrolls turns out to be, services, particularly leisure and hospitality services, figure to be the main driver of May job growth. Two industry groups that stood out to us in the April data were construction and transportation and warehousing services. As for construction, payrolls were flat and aggregate hours worked fell sharply in April, possibly reflecting a slower pace of single family residential construction. As for transportation and warehousing, payrolls amongst delivery services fell by over 77,000 jobs in April, which seems somewhat suspect. In each case, we'll be watching for either upward revisions to the April data or reversals in the May data. While we expect an increase in public sector payrolls, this mainly reflects what we think will be a high volume of seasonal adjustment noise. The large declines in not seasonally adjusted payrolls in the education segment typically seen in the month of May will likely not be there this year, which will bias the seasonally adjusted data higher.
May Manufacturing Employment Range: 15,000 to 80,000 jobs Median: 25,000 jobs	Friday, 6/4	Apr = -18,000 jobs	Up by 22,000 jobs. Payrolls amongst motor vehicle producers fell by 27,000 jobs in April, reflecting production cuts stemming from the global chip shortage, and this more than accounted for the decline in total manufacturing payrolls. While few of these jobs were likely to have come back in May, we nonetheless look for moderate hiring across other manufacturing industry groups, though supply chain and logistics bottlenecks likely held hiring below where it otherwise would have been.
May Average Weekly Hours Range: 34.8 to 35.0 hours Median: 34.9 hours	Friday, 6/4	Apr = 35.0 hours	Unchanged at 35.0 hours. The increase in average weekly hours worked and the jump in average hourly earnings suggest labor supply constraints weighed on hiring in April, and it was noteworthy that the largest increase in both metrics came in leisure and hospitality services. While stronger hiring could have taken some of the pressure off of average weekly hours in leisure and hospitality services in May, we look for a reversal of at least part of April's declines in construction and mining, thus holding up the overall average. Though one-tenth of an hour changes in average weekly hours may not seem very meaningful, they nonetheless have a profound impact on growth in aggregate wage and salary earnings.
May Average Hourly Earnings Range: -0.2 to 0.5 percent Median: 0.2 percent	Friday, 6/4	Apr = +0.7%	Up by 0.5 percent, which would translate into a year-on-year increase of 1.9 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 1.0 percent increase in aggregate private sector wage and salary earnings.
May Unemployment Rate Range: 5.7 to 6.1 percent Median: 5.9 percent	Friday, 6/4	Apr = 6.1%	Down to 5.8 percent. The jobs plentiful/jobs hard to find spread in the Conference Board's monthly survey of consumer confidence has a long track record as a reliable indicator of changes in the unemployment rate. The spread widened significantly in April, yet the unemployment rate ticked higher thanks to an increase in labor force participation. Consumers' assessments of labor market conditions were even more upbeat in May, with the jobs plentiful/jobs hard to find spread widening to a degree last seen in January 2020, when the spread was hovering around a nearly two-decade high. While we expect a stepped-up lace of hiring pushed the unemployment rate lower in May, a larger increase in participation than our forecast anticipates would blunt the decline in the jobless rate, though that would not necessarily be a bad thing. The participation rate will be most interesting to watch over the next few months, as starting in June a number of states will be withdrawing from the programs providing supplemental and pandemic-related unemployment insurance benefits.