ECONOMIC PREVIEW

REGIONS

Week of August 9, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 21-22 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 a general rule, one never wants to put too much emphasis on any single data release in any given month. Not only do the economic data stubbornly refuse to move in perfectly straight lines, but revisions to the initial estimate can change the look and feel of a given data release. With that caveat duly noted, the July employment report is a strong report, even dismissing the reported 240,000-jobs increase in public sector payrolls, which was nothing more than a seasonal quirk tied to state and local government education. Not only was private sector hiring strong and broad based in July, but the initial estimate of private sector job growth in June was revised higher by over 100,000 jobs. At 5.4 percent, the unemployment rate is falling faster than almost anyone had anticipated. The July employment report is a clear sign of the "substantial further progress" the FOMC is looking for as a guide to tapering the Fed's monthly asset purchases. Along with inflation running well above their 2.0 percent target (see below), this could lead to the FOMC pulling tapering forward into late-2021, earlier than we and most market participants had been anticipating.
Q2 Nonfarm Labor Productivity Tuesday, 8/10 Range: 0.8 to 5.3 percent Median: 3.4 percent SAAR	Q1 = +5.4% SAAR	Up at an annualized rate of 1.9 percent. Real nonfarm business output advanced at an annualized rate of 7.9 percent in Q2, considerably faster than top-line real GDP growth of 6.5 percent. At the same time, however, aggregate hours worked amongst private sector employees grew at an annualized rate of 5.2 percent while there was a substantial increase in hours worked amongst the self-employed. To be sure, the mapping of hours worked from the monthly employment reports to the data on labor productivity is always somewhat mysterious, but our productivity forecast assumes a larger increase in aggregate hours worked than others are assuming. If we're wrong on this point, then our forecast of productivity growth will prove to be too low. Either way, productivity growth continues to run well ahead of the pre-pandemic trend rate of growth. Think about it this way – the level of real GDP has, as of Q2, surpassed its pre-pandemic peak, despite the level of nonfarm employment being several million jobs below its pre-pandemic peak and aggregate private sector hours worked remain almost three percent below their pre-pandemic peak. It will be interesting to see how the hours worked/productivity dynamic plays out over coming quarters, particularly to the extent that the experience of the pandemic, ongoing labor supply constraints, and rapidly rising labor costs lead firms to rely more on technology and automation as substitutes for labor.
Q2 Unit Labor Costs Tuesday, 8/10 Range: -0.2 to 2.5 percent Median: 1.2 percent SAAR	Q1 = +1.7% SAAR	Up at an annualized rate of 2.4 percent. We look for another hefty increase in hourly compensation costs, but if our forecast for productivity growth does prove to be too low, then unit labor costs will have grown at a slower pace than we anticipate.
July Consumer Price Index Wednesday, 8/11 Range: 0.3 to 0.7 percent Median: 0.5 percent	Jun = +0.9%	Up by 0.6 percent, which would yield a year-on-year increase of 5.4 percent. Though we should see smaller increases in things like vehicle prices and lodging costs, the July data will nonetheless bring another hefty increase in the headline index. Still, many will continue to dismiss concerns over inflation, even if "transitory" has given way to "temporary" as how inflation pressures are being characterized. While base effects and the normalization of services prices will fade from the data, we continue to think that higher costs for inputs, shipping, and labor will be more persistent sources of inflation pressure. Moreover, to the extent that rents and medical care costs – which have been oddly tame thus far in 2021 – begin to normalize in the months ahead, those will be sources of pressure on core inflation. Even if our above-consensus forecast for the July CPI proves to be too high, headline CPI inflation is likely to remain at or above 5.0 percent for the remainder of 2021.
July Consumer Price Index: Core Wednesday, 8/11 Range: 0.3 to 0.6 percent Median: 0.4 percent	Jun = +0.9%	Up by 0.5 percent, good for a year-on-year increase of 4.4 percent.
July PPI: Final Demand Thursday, 8/12 Range: 0.2 to 0.8 percent Median: 0.6 percent	Jun = +1.0%	Up by 0.7 percent, which would result in an over-the-year increase of 7.4 percent.
July PPI: Core Thursday, 8/12 Range: 0.2 to 0.6 percent Median: 0.5 percent	Jun = +1.0%	Up by 0.6 percent, yielding a year-on-year increase of 5.8 percent.

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