

ECONOMIC PREVIEW



REGIONS

Week of September 6, 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%

The few August data releases that have hit the wires suggest the pace of economic activity faded during the month. Unit motor vehicle sales fell to an annualized rate of just 13.057 million units in August, the lowest monthly sales rate in over a year, with industry data suggesting sales came to a screeching halt over the back half of the month. This is, however, more of a supply side story than a demand side story. With production still hamstrung by chip shortages and inventories of finished vehicles having been significantly pared down, consumers simply have fewer options. The report on motor vehicle sales sets a weak tone for August consumer spending, and a steep decline in spending on consumer durable goods will contribute to a meaningful deceleration in growth in real consumer spending for Q3 as a whole.

While the ISM's surveys of the manufacturing and non-manufacturing sectors point to continued expansion, they also suggest the pace of expansion has slowed. Input shortages, shipping delays, and labor supply constraints continue to bite into growth while input prices continue to push higher. Input price increases remain broad based; of the combined 36 industry groups in the ISM surveys, 34 reported paying higher prices for inputs in August. Moreover, input prices have been rising each month for more than a year now, so that even if prices do begin to rise at a slower rate, they are still rising, and each month's increase builds on those that have come before. That is, more broadly, a useful point to keep in mind as some continue to downplay inflation on the grounds that elevated rates of inflation of late are transitory.

Total nonfarm payrolls rose by 235,000 jobs in August, well below expectations, with private sector payrolls up by 243,000 jobs and public sector payrolls down by 8,000 jobs. Measured public sector job growth has been significantly distorted over recent months by seasonal adjustment issues around the education segment of state and local government and, as such, should be heavily, if not totally, discounted. That leaves the question of what to make of the significant downside miss on private sector job growth. It is worth noting that there is a long history of the initial estimate of August job growth significantly undershooting the final count. For instance, over the past five years, the initial estimate of August job growth has been revised up by an average of 75,000 jobs by the final estimate, and there is no reason to think this year will prove to be an outlier. That, however, is no more than meaningless noise. Of more relevance is that there are signs that rising COVID case counts had an adverse impact on August job growth. The not seasonally adjusted data show sizable declines in employment in retail trade and leisure and hospitality services, in line with various spending and mobility trackers that show consumers pulled back in August amid rising case counts. At the same time, with many firms pushing return to office dates further out – many had anticipated returning after Labor Day – hiring amongst providers of building services and amongst retail and restaurant establishments in close proximity to office clusters was likely also pushed back.

We do think it worth noting that prior estimates of job growth in June and July was revised up by a net 134,000 jobs, making this the second straight month in which the net upward revision for the prior two-month period was over 100,000 jobs. Given the dreaded "August effect" noted above, we'll go out on a limb here and say next month will make it three in a row. At the time of its release, we thought the July employment report was unambiguously strong, and revisions make it even stronger. We do not think the labor market deteriorated as much last month as the August employment report implies. Yet, since many will see the August employment report solely in the context of what it might mean for the FOMC as they deliberate tapering the Fed's monthly asset purchases, we'll say the August data reflect grudging further progress rather than the substantial further progress the FOMC is looking for, thus giving them the latitude to punt on a decision at their September meeting.

August PPI: Final Demand

Range: 0.3 to 0.7 percent

Median: 0.5 percent

Friday, 9/10

Jul = +1.0%

Up by 0.6 percent, which translates into a year-on-year increase of 8.1 percent.

August PPI: Core

Range: 0.0 to 0.6 percent

Median: 0.5 percent

Friday, 9/10

Jul = +1.0%

Up by 0.6 percent, which translates into a year-on-year increase of 6.6 percent.

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