ECONOMIC PREVIEW

REGIONS

Week of November 1, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 2-3 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%	Last week saw ECB President Lagarde attempt to push back against market expectations that policy rate hikes will be pulled forward. How hard she pushed back, however, is open to question, and one could be excused for wondering if her heart was fully in it as she had ample opportunity to make a more forceful case than she did. Either way, market participants weren't buying, as rates in European markets pushed higher as President Lagarde was speaking. The ECB's attempt to play it cool in amid hotter and hotter inflation is in stark contrast to other central banks, most notably the Bank of Canada and the Bank of England, that have taken a more aggressive tack of late. All of which sets an interesting backdrop for this week's FOMC meeting. It is widely accepted that the FOMC will announce plans to taper the Fed's monthly asset purchases – we expect purchases to be reduced by $15 billion per month, bringing the asset purchases to a halt in mid-2022. As the markets are comfortable with such a path, Chairman Powell's post-meeting press conference may be of more interest. Specifically, how forcefully he pushes back against market expectations of two Fed funds rate hikes by year-end 2022, and whether market participants will find him more convincing than they found ECB President Lagarde.
October ISM Manufacturing Index Monday, 11/1 Range: 58.7 to 62.9 percent Median: 60.3 percent	Sep = 61.1%	Up to 61.4 percent. While we look for little change in the production and new orders indexes, increases in the indexes of inventories and employment should help push the headline index higher. Our forecast also anticipates further slowing in supplier delivery times, which would work to increase the headline index. More broadly, it seems unlikely that the narrative around the manufacturing sector will have changed much, i.e., continued supply and shipping constraints and difficulty in finding skilled labor making it increasingly difficult for firms to keep pace with demand. Comments from survey respondents are likely to reveal ongoing frustrations along these lines. Also, the prices paid index, which does not enter into the calculation of the headline index, will be worth watching for any signs that price pressures may be easing, which we do not think will prove to be the case.
September Construction Spending Monday, 11/1 Range: -1.2 to 1.8 percent Median: 0.5 percent	Aug = 0.0%	Down by 0.2 percent, with residential construction acting as a drag. Recall that in the August data, both single family and multi-family outlays fell but these declines were more than offset by a jump in spending on residential improvements. We look for new construction outlays have fallen further in September, more than offsetting a further increase in spending on improvements, with lower residential construction outlays dragging total construction spending lower.
September Factory Orders Wednesday, 11/3 Range: -0.8 to 0.8 percent Median: -0.1 percent	Aug = +1.2%	Up by 0.3 percent.
October ISM Non-Manufacturing Index Wednesday, 11/3 Range: 60.1 to 63.5 percent Median: 62.0 percent	Sep = 61.9%	Up to 63.0 percent. Activity in the services sector rebounded in October, and if we are correct that supplier delivery times slowed further, that will also support the headline index number. The October seasonal adjustment factors are somewhat on the friendly side, which factors into our above-consensus forecast.
Q3 Nonfarm Labor Productivity Thursday, 11/4 Range: -4.5 to -0.1 percent Median: -2.4 percent SAAR	Q2 = +2.1% SAAR	Down at an annualized rate of 4.1 percent. Real output in the nonfarm business sector grew at an annualized rate of 1.7 percent in Q3, while aggregate hours worked in the private sector rose at a 5.0 percent rate. There was also another substantial increase in hours worked by the self-employed. Hours worked having outpaced output growth by such a wide margin will yield a sharp decline in labor productivity.
Q3 Unit Labor Costs Thursday, 11/4 Range: 4.1 to 8.5 percent Median: 6.0 percent SAAR	Q2 = +1.3% SAAR	Up at an annualized rate of 7.9 percent. The combination of faster growth in hourly compensation and lower productivity will yield a hefty increase in unit labor costs. Unit labor costs tend to be quite jumpy from one quarter to the next, but the underlying trend is consistent with other measures of labor costs, particularly the Employment Cost Index, which show comp costs trending higher at a faster rate.
September Trade Balance Thursday, 11/4 Range: -$82.9 to -$71.2 billion Median: -$78.9 billion	Aug = -$73.3 billion	Widening to -$81.1 billion. The advance data on trade in goods show a record-wide deficit in the goods account, which will swamp what we expect to be a slightly larger surplus in the services account. The overall September trade deficit will be the largest in the life of the data, which says more about how distorted global trade flows have become than it does about the fundamentals of the U.S. economy.

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October Nonfarm Employment Range: 250,000 to 700,000 jobs Median: 425,000 jobs	Friday, 11/5	Sep = +194,000 jobs	Up by 503,000 jobs, with private sector payrolls up by 529,000 jobs and public sector payrolls down by 26,000 jobs. In keeping with the pattern seen over the past several months, we look for upward revisions to prior estimates of job growth in August and September; in each of the past three monthly reports, upward revisions to estimates over the prior two-month period have averaged over 100,000 jobs. As has also been the case over the past several months, the October data will be swayed by seasonal adjustment issues. Though to a lesser degree than in September, unfavorable seasonal adjustment factors for employment in state and local government should lead to declines in the seasonally adjusted data. While leisure and hospitality services and construction should again be the beneficiaries of favorable seasonal adjustment, the October seasonal factor should work against retail trade, but, on net, seasonal adjustment should work in favor of total job growth. More fundamentally, there are indications that the pace of job growth picked up in October, but ongoing labor supply constraints remain a meaningful drag on hiring. We'll be watching for whether or not job gains were broader based across private sector industry groups in October after the base of hiring narrowed in September. Fallout from vaccination mandates, people leaving jobs either voluntarily or involuntarily, could be a wild card in the October data. Recall that September, when some mandates went into effect, saw a significant decline in employment amongst hospitals and residential care facilities. While that decline cannot with certainty be attributed to vaccination mandates, it seems more than mere coincidence. While this wouldn't figure to have a large impact, it may be more visible at a time when job growth remains somewhat challenged.
October Manufacturing Employment Range: 15,000 to 36,000 jobs Median: 27,000 jobs	Friday, 11/5	Sep = +26,000 jobs	Up by 27,000 jobs.
October Average Weekly Hours Range: 34.7 to 34.8 hours Median: 34.8 hours	Friday, 11/5	Sep = 34.8 hours	Unchanged at 34.8 hours.
October Average Hourly Earnings Range: 0.3 to 0.5 percent Median: 0.4 percent	Friday, 11/5	Sep = +0.6%	Up by 0.4 percent, which would translate into a year-on-year increase of 4.9 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.8 percent increase in aggregate private sector wage and salary earnings.
October Unemployment Rate Range: 4.5 to 4.9 percent Median: 4.7 percent	Friday, 11/5	Sep = 4.8%	Down to 4.6 percent. A decline in labor force participation played a big role in the decline in the unemployment rate in September, and while our forecast anticipates participation increased in October, we think the increase in hiring will be strong enough to push the jobless rate even lower. As of September, there were over three million fewer people in the labor force than there were prior to the pandemic, and while not all of them will return, we do expect greater numbers to do so in the months ahead. The rate at which they do so will help determine the path of the unemployment rate.

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