ECONOMIC PREVIEW

REGIONS

Week of November 29, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 14-15 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 emergence of the Omicron variant comes as signs were pointing to an easing of the global supply chain and logistics bottlenecks that have been weighing on the U.S. economy over the past several months. The late-summer emergence of the Delta variant was a reminder of how quickly and starkly the Coronavirus can change the course of the economy. Were the Omicron variant to lead to global manufacturing and shipping hubs once again being shutdown, any progress that has been made in clearing supply-side constraints would be quickly erased, which would in turn add more fuel to already substantial inflation pressures.
November Consumer Confidence Tuesday, 11/30 Range: 105.0 to 115.5 Median: 110.7	Oct = 113.8	Down to 110.4 as concerns over inflation weigh more heavily on consumers' perceptions of economic conditions. Though the two surveys don't always move in the same direction, the University of Michigan's survey shows consumer sentiment hit a ten-year low in November, and we expect the Conference Board's measure to have fallen as well. Still, while the Conference Board's gauge of consumer confidence is well off of this summer's high, it is notable that consumers' perceptions of labor market conditions, as measured by the "jobs plentiful/jobs hard to get" spread, were more favorable in October than in any month since July 2000. That could account for why consumer spending remains strong despite the dips in the headline numbers from the sentiment surveys. How they feel about their own job and income prospects is the key driver of spending decisions, and with many households still sitting on larger than normal financial buffers, concerns over inflation haven't been a deterrent to spending, though that could change if elevated inflation persists. Another reason we think it worth focusing on the Conference Board's "jobs plentiful/jobs hard to get spread" is that this spread has a long and reliable track record of signaling turns in the business cycle. That takes on added significance at present in light of the signals being sent by other data points from surveys of consumers, such as the wide gap between the present conditions and expectations components of the Conference Board's survey of consumer confidence. That gap has widened to levels which in the past have been consistent with the economy slipping into recession, which has gotten considerable attention in recent weeks. We see the "jobs plentiful/jobs hard to get" spread as being the more reliable indicator. As noted above, this spread remains at a more than two-decade high, sending quite the opposite message than the present conditions/expectations spread.
November ISM Manufacturing Index Wednesday, 12/1 Range: 59.7 to 62.5 percent Median: 61.1 percent	Oct = 60.8%	Up to 61.8 percent. Though supply chain, logistics, and labor supply constraints remain a drag on factory sector activity, there are signs that these constraints have begun to ease, and at the very least are no longer getting worse. To that point, our forecast anticipates a modest decline in the supplier delivery index, and were it not for that, our forecast of the headline index would be even higher, as we expect the indexes of new orders, production, employment, and inventories to all have increased in the November survey. Two components which do not enter into the calculation of the headline index but which very much bear watching are the index of order backlogs and the index of prices paid. We expect the November data to indicate a 17^{th} consecutive month of larger order backlogs, and the prices paid component will offer clues as to whether input supply constraints are abating.
October Construction Spending Wednesday, 12/1 Range: -1.0 to 0.8 percent Median: 0.4 percent	Sep = -0.5%	Down by 0.2 percent with a fourth consecutive decline in outlays on single family construction acting as a drag on total construction spending.
October Factory Orders Friday, 12/3 Range: -0.2 to 1.0 percent Median: 0.5 percent	Sep = +0.2%	Up by 0.8 percent. Though falling aircraft orders pushed durable goods orders lower, what should be a sizable increase in orders for nondurable goods – in part reflecting higher prices – should lead to an increase in total factory orders.
November ISM Non-Manufacturing Index Friday, 12/3 Range: 62.0 to 67.0 percent Median: 65.0 percent	Oct = 66.7%	Down to 65.3 percent. October saw the headline index, the index of business activity, and the index of new orders each rise to its highest level in the life of the ISM's survey of the services sector. We look for some settling back in the November data, and at the same time expect a decline in the index of supplier delivery times, which would act as a drag on the headline index. Even if the headline index declines as our forecast anticipates, it would nonetheless be consistent with further broad based expansion in the services sector.

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November Nonfarm Employment Range: 375,000 to 800,000 jobs Median: 535,000 jobs	Friday, 12/3	Oct = +531,000 jobs	<u>Up</u> by 662,000 jobs, with private sector payrolls <u>up</u> by 684,000 jobs and public sector payrolls <u>down</u> by 22,000 jobs. Before turning our attention to the November data, we'll note that in each of the past four months, the net upward revision to estimates of job growth over the prior two-month period topped 100,000 jobs, and we expect that to again be the case with prior estimates of job growth in September and October. When job growth is accelerating, it is common to see upward revisions to initial estimates of growth. Moreover, what has been a heightened degree of turnover in the labor market over the past several months is likely injecting more noise into the initial estimates of job growth than would otherwise be the case, so the revisions are helping smooth out this noise. To the extent there is added noise in the initial estimates of job growth, that carries through to the initial estimates of hours worked and average hourly earnings. Note that if we are correct on this point, the effects will be much more pronounced in the establishment survey data than in the household survey data from which the unemployment rate is calculated. And, if we are correct on this point, these same caveats will apply to this week's initial estimate of November job growth. Sharp declines in initial and claims for unemployment insurance benefits between the October and November reference weeks point to another sizable increase in nonfarm employment in November. That said, there is considerable potential for seasonal adjustment noise in the November data, meaning that the headline job growth number may not be the best gauge of the extent to which labor market conditions improved. While it is likely that seasonal adjustment will flatter measured job growth in leisure and hospitality services, the opposite could be the case in warehousing and delivery services and retail trade. Keep in mind that November is typically a strong month for hiring in these industry groups as hiring ramps up for the holiday sales season. But, between October hiring having been stronger than is typical for the month and labor force participation remaining depressed, it could be that hiring this November was not as strong as is typical for the month. Any such shortfall in hiring in the not seasonally adjusted data would be punished severely by seasonal adjustment, which poses a downside risk to our forecast of total November job growth. At the same time, there has been an extraordinarily high volume of seasonal adjustment noise in estimates of job growth in the education segment of state and local government, and we look for more noise, albeit at a lower volume, in the November data.
November Manufacturing Employment Range: 25,000 to 53,000 jobs Median: 45,000 jobs	Friday, 12/3	Oct = +60,000 jobs	<u>Up</u> by 39,000 jobs.
November Average Weekly Hours Range: 34.5 to 34.8 hours Median: 34.7 hours	Friday, 12/3	Oct = 34.7 hours	<u>Unchanged</u> at 34.7 hours.
November Average Hourly Earnings Range: 0.2 to 0.5 percent Median: 0.4 percent	Friday, 12/3	Oct = +0.4%	<u>Up</u> by 0.4 percent, which would translate into a year-on-year increase of 5.0 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.9 percent increase in aggregate private sector wage and salary earnings.
November Unemployment Rate Range: 4.3 to 4.6 percent Median: 4.4 percent	Friday, 12/3	Oct = 4.6%	<u>Down</u> to 4.4 percent. While we anticipate an uptick in the labor force participation rate, we expect the increase in the labor force to be more than absorbed by the increase in household employment, thus pushing the unemployment rate down further. We expect more meaningful increases in labor force participation once we get into 2022, such that further declines in the jobless rate will be harder to come by. That said, there are still roughly three million fewer people in the labor force than was the case prior to the pandemic, and not all of those who have exited the labor force since the start of the pandemic will return. The magnitude of any such shortfall will have implications for the unemployment rate and the rate of wage growth. The key demographic group to watch will be the 25-to-54 year-old age cohort, or, the "prime working age population," where participation remains well below pre-pandemic norms.