ECONOMIC PREVIEW

REGIONS

Week of January 31, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 15-16 FOMC meeting):* Target Range Mid-point: 0.125 to 0.625 percent Median Target Range Mid-point: 0.375 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	This week kicks off the top-tier economic data releases for the month of January, which figure to be impacted by the spike in COVID-19 cases due to the rapid spread of the Omicron variant. Two of the main channels through which the data figure to be impacted are absences from work and shifts in patterns of consumer spending, which will impact different data series in different ways, but there is no way of quantifying those impacts in advance of the releases. It is also worth noting that January is typically a month in which economic activity slows considerably, to some extent reflecting a pause after the holiday-season and to some extent reflecting winter weather weighing on activity. For instance, the not seasonally adjusted data typically show sizable declines in retail sales and nonfarm employment for the month of January, but these declines are compensated for through seasonal adjustment. As we have noted on several occasions, however, typical seasonal patterns in economic activity have been significantly disrupted since the onset of the pandemic, calling into question the extent to which seasonal adjustment will cushion the impact of pullbacks in economic activity stemming from rising case counts in January. The bottom line is that the economic data for the month of January are likely to be all over the map, making it hard to have any, let alone much, confidence in forecasts for the various indicators for January. It is worth noting that, with the spike in COVID cases receding across much of the U.S., economic activity should pick back up, which will eventually be reflected in the economic data. As always, our focus will remain squarely on the not seasonally adjusted data as we try to separate signals of changes in underlying trends from what will almost surely be a high degree of noise.
January ISM Manufacturing Index Tuesday, 2/1 Range: 55.0 to 59.7 percent Median: 57.5 percent	Dec = 58.8%	<u>Down</u> to 56.8 percent. Absences from work likely weighed on the production index and may have also weighed on the employment index. At the same time, however, to the extent supplier delivery times were stretched out due to COVID-related issues, that would act as a support for the headline index. The most important component to watch will be the new orders index; while we think new orders would be less susceptible to COVID-related swings, factory activity has been quite choppy of late, and the new orders index has been notably elevated for quite some time and could be due to settle into a level indicative of more moderate growth in demand. One caveat here is that the January seasonal adjustment factors are quite accommodative, which will help cushion the impact of any deterioration in the raw data. We'll also be monitoring comments from survey respondents for any color on whether or not global supply chain issues intensified due to the spike in COVID case counts.
December Construction Spending Tuesday, 2/1 Range: 0.3 to 1.1 percent Median: 0.6 percent	Nov = +0.4%	<u>Up</u> by 1.1 percent, with a boost from residential construction activity. If our forecast is on or near the mark, it suggests an upward revision to the fixed residential investment component of the Q4 2021 GDP data.
Q4 Nonfarm Labor Productivity Wednesday, 2/3 Range: 0.9 to 7.1 percent Median: 3.3 percent SAAR	Q3 = -5.2% SAAR	<u>Up</u> at an annualized rate of 4.3 percent. Real output in the nonfarm business sector grew at an annualized rate of 9.2 percent in Q4, easily outpacing top-line real GDP growth. Data from the monthly employment reports show aggregate private sector hours worked rose at an annualized rate of 4.6 percent, while hours worked amongst the self-employed rose at an annualized rate of 2.7 percent. While the productivity data have been more volatile than normal since the onset of the pandemic, we do think the trend rate of productivity growth will be higher than was the case prior to the pandemic, in part because firms are investing heavily in technology and automation to counter labor supply constraints and higher wage costs.
Q4 Unit Labor Costs Wednesday, 2/3 Range: -1.5 to 6.2 percent Median: 1.0 percent SAAR	Q3 = +9.6% SAAR	<u>Up</u> at an annualized rate of 0.5 percent with enhanced productivity absorbing much of the growth in hourly labor compensation costs.
December Factory Orders Wednesday, 2/3 Range: -1.0 to 0.5 percent Median: -0.4 percent	Nov = +1.6%	<u>Down</u> by 0.6 percent.
January ISM Non-Manufacturing Index Wednesday, 2/3 Range: 54.0 to 63.0 percent Median: 59.5 percent	Dec = 62.3%	<u>Down</u> to 60.1 percent. Various indicators show activity in the services sector slowed sharply in January, which we expect to be reflected in the ISM's survey data. As with the ISM's survey of the manufacturing sector, however, friendly January seasonal adjustment factors will cushion the impact of any deterioration in the raw data.

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January Nonfarm Employment Friday, 2/4 Range: -400,000 to 250,000 jobs Median: 150,000 jobs	Dec = +199,000 jobs	Up by 138,000 jobs, with private sector payrolls up by 72,000 jobs and public sector payrolls up by 66,000 jobs. COVID case counts were peaking during the reference week for the establishment survey, and absences from work will no doubt have acted as a drag on nonfarm employment. Keep in mind that in the establishment survey, one must be physically present for work during the reference week to be counted as employed. That said, January is a month in which private sector payrolls tend to fall sharply, as holiday season add-ons roll off payrolls and weather depressed activity such as construction. As such, favorable January seasonal adjustment factors could make a big difference, particularly to the extent that holiday-related hiring was less intense in 2021, resulting in fewer layoffs in January than is typically the case. Indeed, with labor as difficult to find as it has been over recent months, it is unlikely firms would have brought workers on the books in late-2021 simply to let them go in early-2022.This is the main reason our forecast does not anticipate a decline in private sector payrolls in January, although we won't be at all surprised to see one. We also anticipate seasonal adjustment providing a meaningful boost to public sector payrolls. As if all of these issues didn't pose enough uncertainty, the January report will incorporate the BLS's annual benchmark revisions to the establishment survey data. The preliminary look at the benchmark revisions suggests the level of nonfarm employment as of March 2021 will be reduced by around 166,000 jobs, or, around one-tenth of one percent of total nonfarm employment. While the benchmark revisions don't typically result in significant changes in month-to-month job growth, recall that over the past several months there had been a pattern of sizable upward revisions to the initial estimates of job growth, so we're not really sure what to expect from the revised data in terms of monthly job growth over 2H 2021.
January Manufacturing Employment Friday, 2/4 Range: -15,000 to 45,000 jobs Median: 23,000 jobs	Dec = +26,000 jobs	Up by 9,000 jobs.
January Average Weekly Hours Friday, 2/4 Range: 34.5 to 34.9 hours Median: 34.7 hours	Dec = 34.7 hours	Up to 34.9 hours. To the extent firms faced increased absences amongst workers, one offset would be to increase hours worked by those still on the job, which we've seen during prior spikes in case counts.
January Average Hourly Earnings Friday, 2/4 Range: 0.3 to 0.8 percent Median: 0.5 percent	Dec = +0.6%	Up by 0.4 percent, which would translate into a year-on-year increase of 5.0 percent. Our forecast could be on the low side, but the January survey period ended prior to the middle of the month, which typically holds down measured growth in average hourly earnings. 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, leaving them up 9.9 percent year-on-year.
January Unemployment Rate Friday, 2/4 Range: 3.7 to 4.2 percent Median: 3.9 percent	Dec = 3.9%	Down to 3.7 percent. We think that the spike in case counts weighed on labor force participation in January. While it likely had an impact on employment, keep in mind that in the household survey, from which estimates of the unemployment rate are drawn, one is still counted as employed even if not physically present for work during the survey period. This accounts for our expectation of a decline in the jobless rate in January, though we have the same low degree of confidence in this forecast that we have in our forecasts of the other indicators coming out this week.

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