

ECONOMIC PREVIEW



REGIONS

Week of March 28, 2022

Indicator/Action

Economics Survey:

Last

Actual:

Regions' View:

Fed Funds Rate: Target Range Midpoint <i>After the May 3-4 FOMC meeting:</i> Target Range Mid-point: 0.625 to 0.875 percent Median Target Range Mid-point: 0.875 percent	Range: 0.25% to 0.50% Midpoint: 0.375%	We look for the PCE Deflator – the FOMC’s preferred gauge of inflation – to show the fastest rate of inflation since January 1982, which will only add to the impetus for a 50-basis point hike in the Fed funds rate at the May 3-4 FOMC meeting. Keep in mind that the March employment report (see Page 2) is the last monthly report the FOMC will see before their May meeting. We and most others expect there will be nothing in the March data that will make the Committee hesitant to pull the trigger on a 50-basis point hike in May.
February Advance Trade Balance: Goods Monday, 3/28 Range: -\$108.5 to -\$99.3 billion Median: -\$106.3 billion	Jan = -\$107.6 billion	<u>Widening</u> to -\$108.1 billion.
March Consumer Confidence Tuesday, 3/29 Range: 102.0 to 110.2 Median: 107.0	Feb = 110.5	<u>Down</u> to 106.6 with the spike in gasoline prices, faster inflation, and geopolitical tensions weighing on consumer confidence. As we frequently note, the part of the Conference Board’s monthly survey that we pay the most attention to is consumers’ assessments of labor market conditions. Despite the slippage in the headline index in recent months, consumers remain notably upbeat on labor market conditions, with the “jobs plentiful/jobs hard to get” spread remaining around a two-decade high. At the same time, however, expectations of income growth have dimmed, which will be one element of the March data to watch. Assessments of buying conditions for large purchases will also bear watching as a clue for how discretionary spending may be impacted by elevated inflation, particularly food and energy prices.
Q4 Real GDP – 3rd est. Wednesday, 3/30 Range: 6.9 to 7.4 percent Median: 7.1 percent SAAR	Q4 2 nd est. = +7.0% SAAR	<u>Up</u> at an annualized rate of 7.1 percent.
Q4 GDP Price Index – 3rd est. Wednesday, 3/30 Range: 7.1 to 7.2 percent Median: 7.1 percent SAAR	Q4 2 nd est. = +7.1% SAAR	<u>Up</u> at an annualized rate of 7.1 percent.
February Personal Income Thursday, 3/31 Range: -0.1 to 0.7 percent Median: 0.5 percent	Jan = 0.0%	<u>Up</u> by 0.4 percent. Our below-consensus forecast anticipates that transfer payments will be a drag on top-line income growth for the fifth time in the past six months, with the February data reflecting the effects of the expiration of expanded Child Tax Credit payments. We will, however, note that the January data showed a much higher level of payouts than we had anticipated, raising the likelihood that either the initial estimate of January personal income gets revised lower or there is a bigger decline in transfer payments in February than we anticipate. For some time now disposable (or, after-tax) personal income excluding transfer payments has been a more reliable gauge of underlying income growth, and the February data should show another healthy advance underpinned by strong growth in private sector labor earnings. That said, inflation is taking a bigger bite out of household income; on a nominal basis, disposable personal income excluding transfer payments was up 7.2 percent year-on-year in January, but on a real (or, inflation-adjusted) basis, the increase was just 2.4 percent, and we look for a smaller increase in the February data. Though many households still have a buffer of “excess” saving at their disposal, the question becomes their willingness to dip into that saving to facilitate current spending in the face of sagging confidence and elevated inflation.
February Personal Spending Thursday, 3/31 Range: 0.0 to 1.1 percent Median: 0.5 percent	Jan = +2.1%	<u>Up</u> by 0.3 percent. The report on February retail sales was somewhat bleak, with only a price-induced increase in gasoline station sales keeping total sales from declining while control retail sales tumbled by 1.2 percent. The retail sales data suggest the BEA’s measure of consumer spending will show a decline in spending on goods, particularly consumer durable goods. Keep in mind that the retail sales data do not include consumer spending on services, and our forecast anticipates a nice bounce in services spending in February as consumers were back out and about after the most recent spike in COVID cases subsided. While higher services spending should more than offset the decline in spending on goods our forecast anticipates, the question becomes whether, or to what extent, February’s strength in services spending will be sustained in the months ahead. And, even if we are correct in expecting total consumer spending to have increased on a nominal basis in February, an even larger increase in the PCE Deflator (see Page 2) means real spending will have declined.

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February PCE Deflator Range: 0.5 to 0.7 percent Median: 0.6 percent	Thursday, 3/31	Jan = +0.6%	<u>Up</u> by 0.6 percent, which would yield a year-on-year increase of 6.4 percent. We look for the <u>Core PCE Deflator</u> to be <u>up</u> by 0.4 percent, which would translate into an over-the-year increase of 5.5 percent.
March ISM Manufacturing Index Range: 56.9 to 61.5 percent Median: 58.8 percent	Friday, 4/1	Feb = 58.6%	<u>Up</u> to 59.4 percent. Other indicators suggest the pace of activity in the factory sector picked up in March, and we expect the ISM's survey data to follow suit. That said, we can point to two sources of uncertainty around our forecast. First, we've wondered whether sizable order backlogs and uncertainty delivery times combined with rapidly rising prices would at some point eat into growth in new orders. While there has been no evidence of that in the ISM's survey to date, that could easily change, particularly with global supply chain and logistics channels being further impaired in the wake of Russia's invasion of Ukraine. Also, we've heard conflicting accounts of supplier delivery times over recent weeks, some suggesting delivery times improving, others suggesting delivery times have slowed further. This matters here given that the delivery times index enters into the calculation of the ISM's headline index, with faster (slower) delivery times acting as a drag on (support for) the top-line index. Our forecast assumes little change in supplier delivery times in March; in all honesty, we flipped a coin to decide faster/slower, but the coin landed on its edge, never settling on either heads or tails. And they say this isn't a science. Either way, while it does not enter into the calculation of the headline index, the prices paid index will be another sign of whether, or to what extent, supply/delivery channels have been further stressed in recent weeks, and we look for the prices paid index to have risen further in March.
February Construction Spending Range: 0.5 to 1.5 percent Median: 1.0 percent	Friday, 4/1	Jan = +1.3%	<u>Up</u> by 1.0 percent.
March Nonfarm Employment Range: 70,000 to 700,000 jobs Median: 485,000 jobs	Friday, 4/1	Feb = +678,000 jobs	<u>Up</u> by 566,000 jobs, with private sector payrolls <u>up</u> by 548,000 jobs and public sector payrolls <u>up</u> by 18,000 jobs. We expect job growth to have remained robust in March, with further increases in labor force participation allowing for a larger increase in nonfarm payrolls than in February. Initial and continuing claims for unemployment insurance benefits were significantly lower in the March survey week than was the case in the February survey week, and COVID case counts continued to fall, both of which point to another month of strong job growth. In a nice change from prior months, the February employment data were largely free of seasonal adjustment noise, which will hopefully be the case with the March data. At the same time, we've been struck by how low the response rates to the BLS's establishment survey have been in recent months. For instance, February's response rate of 63.7 percent was the lowest of any month since June 2020 and the lowest of any February since 2003. Low response rates leave the initial estimate of job growth vulnerable to sizable revision in subsequent months, which is why we'll be paying attention to March's response rate. Also, February's job growth was notably broad based across private sector industry groups, which is also something to watch for in the March data.
March Manufacturing Employment Range: 25,000 to 45,000 jobs Median: 30,000 jobs	Friday, 4/1	Feb = +36,000 jobs	<u>Up</u> by 41,000 jobs.
March Average Weekly Hours Range: 34.6 to 34.8 hours Median: 34.7 hours	Friday, 4/1	Feb = 34.7 hours	<u>Up</u> to 34.8 hours.
March Average Hourly Earnings Range: 0.3 to 0.6 percent Median: 0.4 percent	Friday, 4/1	Feb = 0.0%	<u>Up</u> by 0.6 percent, which would translate into a year-on-year increase of 5.7 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 1.3 percent increase in aggregate private sector wage and salary earnings, leaving them up 10.7 percent year-on-year.
March Unemployment Rate Range: 3.6 to 3.8 percent Median: 3.7 percent	Friday, 4/1	Feb = 3.8%	<u>Down</u> to 3.6 percent. While we look for a further increase in labor force participation, we also look for job growth to have been strong enough to push the unemployment rate down further.

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