ECONOMIC PREVIEW

Week of May 30, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 14-15 FOMC meeting):* Target Range Mid-point: 1.375 to 1.625 percent Median Target Range Mid-point: 1.375 percent	Range: 0.75% to 1.00% Midpoint: 0.875%	In addition to Friday's release of the May employment report (see Page 2), this week also brings the April Job Openings and Labor Turnover Survey (JOLTS) data, out on Wednesday. Though anecdotal evidence suggests some cooling in the demand for labor, we're not expecting to see much evidence of that in the April JOLTS data given the time lag. But, even if (when?) softening labor demand does become more apparent in the JOLTS data, it will be important to put that into context. The April data will likely show over 11 million open jobs, a number that exceeds the combined number of those unemployed and those not in the labor force who want a job. As such, it will take, literally, millions of openings being withdrawn before we can even talk about the labor market being balanced. Moreover, the number of open jobs is by no means the only indicator of shifts in labor market conditions, so be mindful of the JOLTS data on the hiring rate and the rate at which workers voluntarily leave jobs.
May Consumer Confidence Tuesday, 5/31 Range: 99.3 to 106.3 Median: 103.8	Apr = 107.3	Down to 104.1, with a U-turn in gasoline prices, elevated inflation, and falling equity prices weighing on consumer confidence. Thus far, there has been somewhat of a disconnect between measures of confidence/sentiment and consumer spending, most notably services spending. To be sure, that can always change, but perhaps the biggest factor in that disconnect is that consumers remain strongly upbeat on labor market conditions, as evidenced by the "jobs plentiful/jobs hard to get" spread in the Conference Board's monthly survey. Though having narrowed a touch since hitting a record high in the March survey, that spread nonetheless remains substantial. As long as consumers remain confident in their own job and income, they will remain willing to spend, even if that's gotten a bit uncomfortable of late.
May ISM Manufacturing Index Wednesday, 6/1 Range: 50.8 to 56.5 percent Median: 54.5 percent	Apr = 55.4%	Down to 55.2 percent. While our forecast anticipates declines in three of the indexes that factor into the calculation of the headline index – production, inventories, and new orders – we look for those to be largely offset by an increase in the employment index and slower supplier delivery times. Recall that slower supplier delivery times add to, rather than deduct from, the headline index, and there are signs that supply chain and logistics bottlenecks have intensified, which leads us to expect the ISM's survey to show further slowing in delivery times. What we'll be watching the most closely, however, is the new orders index. The orders index has drifted lower over recent months and, while still indicating orders growth, is getting uncomfortably close to the 50.0 percent break between contraction and expansion while orders growth has become less broad based across industry groups. We look for the new orders index to get even closer to that 50 percent threshold but, if it dips below 50 percent and stays there, that would be a troublesome sign for the broader economy.
April Construction Spending Wednesday, 6/1 Range: -0.4 to 1.1 percent Median: 0.6 percent	Mar = +0.1%	Up by 0.7 percent.
April Factory Orders Thursday, 6/2 Range: 0.0 to 1.2 percent Median: 0.7 percent	Mar = +1.8%	Up by 0.6 percent. As always, the most important line item in the report on factory orders will be orders for core capital goods, a harbinger of business investment in equipment and machinery as reported in the GDP data. Though we discount core capital goods orders having declined in February – seasonally adjusting this series is tricky and February declines are common – looking more broadly shows orders have been quite uneven over the past several months, and the preliminary data show a much smaller increase in April than in March. What we do not yet know is whether this is just the data doing data things or whether business confidence is wavering amid elevated inflation and a much more uncertain economic outlook as central banks across the globe pull in the reins on monetary accommodation. If business confidence is wavering, firms would be more circumspect in their investment decisions. This is more than a mere academic question, as robust growth in business outlays on equipment, machinery, and intellectual property products has been a key support for real GDP growth over the past several quarters, which we have expected to remain the case. To be sure, the April orders data won't settle the question, but that we're even asking the question is telling in and of itself.
Q1 Nonfarm Labor Productivity – revised Thursday, 6/2 Range: -7.7 to -7.0 percent Median: -7.5 percent SAAR	Q1 pre. = -7.5% SAAR	Down at an annualized rate of 7.4 percent.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

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Q1 Unit Labor Costs – revised Thursday, 6/2 Range: 11.0 to 12.7 percent Median: 11.6 percent SAAR	Q1 pre. = +11.6% SAAR	Up at an annualized rate of 12.1 percent.
May ISM Non-Manufacturing Index Friday, 6/3 Range: 54.5 to 60.0 percent Median: 56.5 percent	Apr = 57.1%	Up to 58.0 percent. One curious element of the April survey was that the employment index dipped below the 50.0 threshold, implying a contraction in employment in the broad services sector that would have been at odds with all other indicators. We look for the employment index to have pushed back above 50 percent in the May survey which, along with what we anticipate will be further slowing in supplier delivery times, should nudge the headline index higher.
May Nonfarm Employment Friday, 6/3 Range: 250,000 to 450,000 jobs Median: 325,000 jobs	Apr = +428,000 jobs	Up by 297,000 jobs, with private sector payrolls up by 283,000 jobs and public sector payrolls up by 14,000 jobs. Over the past twelve months, nonfarm payrolls have risen by an average of 552,000 jobs per month. While that pace was clearly unsustainable, the deceleration in job growth could be sharper than we and most others expected. The May employment report has three things going against it – a tough seasonal adjustment factor, some slowing in interest sensitive sectors of the economy in the wake of a sharp increase in market interest rates, and shifting patterns in consumer spending. In a typical year, May sees the second largest increase in not seasonally adjusted nonfarm employment, second only to April, meaning that any miss to the downside in the unadjusted data is treated harshly in the seasonally adjusted data. Places where we think the raw data could show softer than normal May hiring include leisure and hospitality services, transportation/warehousing, and construction. Firms across leisure and hospitality services are still playing catch-up, with payrolls in the broad industry group over 1.4 million jobs shy of the pre-pandemic peak, which helps account for why wage growth is more rapid here than any other industry group. So, while we expect unadjusted leisure and hospitality services payrolls to have risen in May, it won't surprise us if that increase was smaller than is normal for the month. The same holds for construction; with so much hiring having been pulled forward in the face of blistering growth in demand, the bar for May hiring was already set high before the recent jump in mortgage interest rates began to weigh on demand. As for transportation/warehousing services, the rotation in consumer spending patterns – away from goods, toward services – is weighing on freight volumes and, as with construction, with so much job growth in this industry group having been front loaded, hiring in May could easily have cooled to a degree that would leave a mark on the seasonally adjusted data. The increase in jobless claims between the April and May reference weeks suggests the slower pace of job growth we and most others expect. Also, the April employment report showed a downward revision to estimates of net job growth over the prior two months, ending a run of substantial upward revisions, so this is another thing to watch for in the May report.
May Manufacturing Employment Friday, 6/3 Range: 20,000 to 51,000 jobs Median: 39,000 jobs	Apr = +55,000 jobs	Up by 29,000 jobs.
May Average Weekly Hours Friday, 6/3 Range: 34.6 to 34.7 hours Median: 34.6 hours	Apr = 34.6 hours	Unchanged at 34.6 hours. It seems a bit odd that average weekly hours worked have not risen given the extent to which labor demand has outpaced labor supply. In part, that is a mix issue, i.e., job gains being concentrated amongst industry groups with below-average workweeks, but to the extent some of the edge has been taken off of labor demand, average weekly hours are not likely to have increased in May.
May Average Hourly Earnings Friday, 6/3 Range: 0.2 to 0.6 percent Median: 0.4 percent	Apr = +0.3%	Up by 0.2 percent, which would translate into a year-on-year increase of 5.1 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.4 percent increase in aggregate private sector wage and salary earnings, leaving them up 9.5 percent year-on-year. In part, our below-consensus forecast of growth in average hourly earnings reflects the May survey period ending prior to the middle of the month, which tends to bias measured earnings growth lower.
May Unemployment Rate Friday, 6/3 Range: 3.4 to 3.7 percent Median: 3.5 percent	Apr = 3.6%	Down to 3.5 percent.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

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