ECONOMIC PREVIEW

REGIONS

Week of August 29, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 20-21 FOMC meeting):* Target Range Mid-point: 2.875 to 3.125 percent Median Target Range Mid-point: 2.875 percent	Range: 2.25% to 2.50% Midpoint: 2.375%	What it lacked in length, coming at just around eight minutes, Fed Chair Powell's speech at the Jackson Hole conference more than made up for in impact. To be sure, judging from the reaction in the financial markets, we shudder to think what might have happened had he spoken for, oh, nine minutes . . . In any event, it wasn't so much that Mr. Powell broke new ground in his remarks as it was the forceful tone in which he reiterated several points he and other FOMC members had been making since many market participants seem to have come away with the wrong impressions from the July FOMC meeting. While stressing the Committee's resolve to rein in inflation, Mr. Powell also noted that history "cautions strongly against prematurely loosening policy." One point Mr. Powell made that deserves more attention than it has gotten is that he sees the economy continuing to show "strong underlying momentum" while the labor market remains "particularly strong." To the extent that many, if not most, FOMC members agree with that assessment, that shapes their views of the magnitude of rate hikes that will be required to help bring down inflation. While the recent economic data have been, as Mr. Powell put it, mixed, the FOMC's main focus will be on the labor market data. This week brings the release of the Job Openings and Labor Turnover Survey (a/k/a JOLTS) for July and the August employment report (see Page 2). Though having fallen over recent months, the number of job vacancies nonetheless remains over fifty percent higher than pre-pandemic levels, and we expect the August employment report to show another month of sturdy job growth and a tick down in the unemployment report. On the basis of the labor market data, the FOMC is likely to judge they still have some way to go before their task is complete despite some softening in inflation.
August Consumer Confidence Tuesday, 8/30 Range: 92.0 to 102.6 Median: 98.0	Jul= 95.7	<u>Up</u> to 98.2 with lower gasoline prices offering some relief to consumers' psyches as well as their budgets. As always, our main focus will be consumers' assessments of labor market conditions. Despite the headline confidence number having taken a tumble over recent months, consumers have remained notably upbeat on labor market conditions. Though off the all-time high set in March, the jobs plentiful/jobs hard to get spread nonetheless remains well above its normal range. As long as consumers remain confident in their own job and income prospects, they are unlikely to pull in the reins on spending, regardless of what the headline confidence number is doing.
Q2 Nonfarm Labor Productivity – 2nd est. Thursday, 9/1 Range: -4.8 to -3.9 percent Median: -4.4 percent SAAR	Q2 1st est. = -4.6% SAAR	<u>Down</u> at an annualized rate of 4.1 percent. The revised Q2 GDP data show real output in the nonfarm business sector contracted at an annualized rate of 1.4 percent, less harsh than the 2.1 percent annualized decline initially reported. As such, productivity will have fallen at a slower rate than was initially estimated.
Q2 Unit Labor Costs – 2nd estimate Thursday, 9/1 Range: 9.5 to 11.3 percent Median: 10.7 percent SAAR	Q2 1st est. = +10.8% SAAR	<u>Up</u> at an annualized rate of 10.2 percent. The flip side of a less harsh decline in labor productivity is a slightly slower pace of growth in unit labor costs.
August ISM Manufacturing Index Thursday, 9/1 Range: 48.5 to 53.1 percent Median: 51.9 percent	Jul = 52.8%	<u>Down</u> to 52.6 percent. While we do not doubt that the pace of activity in the factory sector has slowed, we do think that the degree to which that is the case has been at least a bit exaggerated by the punitive seasonal adjustment factors employed in the past two editions of the ISM's survey. The index of new orders will be a good test of our premise, particularly since the August seasonal factors are friendlier than those used in the June and July surveys. Also note that another drag on the headline index in the past two surveys has been the decline in the index of supplier delivery times. Though it seems somewhat counterintuitive, improving delivery times works against the headline index, and we expect a further decline in the index of supplier delivery times in the August data. Though the regional Fed manufacturing surveys have been decidedly mixed, it is worth noting that the "hard" data such as core capital goods orders, imports of capital goods, and industrial production have held up better than the survey data, which to us suggests the factory sector continues to expand, even if at a slower pace than over the prior several months.
July Construction Spending Thursday, 9/1 Range: -1.5 to 0.5 percent Median: -0.3 percent	Jun = -1.1%	<u>Down</u> by 0.8 percent.

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July Factory Orders Friday, 9/2 Range: -1.0 to 1.0 percent Median: 0.2 percent	Jun = +2.0%	Down by 0.8 percent. Durable goods orders were flat in July, as a sharp decline in orders for defense aircraft negated a jump in civilian aircraft orders. At the same time, lower energy and commodity prices likely weighed on orders for nondurable goods, thus dragging total orders lower. The details, however, should show another increase in core capital goods orders, which is a good sign for business investment.
August Nonfarm Employment Friday, 9/2 Range: 75,000 to 452,000 jobs Median: 300,000 jobs	Jul = +528,000 jobs	Up by 272,000 jobs, with private sector payrolls up by 261,000 jobs and public sector payrolls up by 11,000 jobs. Normally, we'd begin our discussion of our forecast for August job growth by making note of the dreaded August effect, or, the tendency for the initial estimate of August to be revised significantly higher in the two subsequent rounds of revision. For instance, over the past five years the average upward revision between the first and third estimates of August job growth has been 119,000 jobs, and that revision was much larger last year, with a net upward revision of 248,000 jobs. Historically, the response rate to the BLS's initial August establishment survey has tended to be lower than in other months, giving rise to larger sample errors that are unwound as August surveys are backfilled in subsequent months. But, over the past several months, response rates to the establishment survey have been notably low, such that a low response rate this August wouldn't stand out. So, while we're not expecting the dreaded August effect to be quite so dreadful this year, we do expect a considerably smaller increase in nonfarm payrolls than the surprisingly large increase seen in July. One factor that favored July job growth at the expense of August was the extra week between the June and July survey periods, which meant that some job gains that would otherwise have been booked in August were pulled forward into July. At the same time, July job growth was flattered by favorable seasonal adjustment, and to the extent that was the case, there will be some payback in the August data. Still, averaging the July number and our August forecast would put job growth squarely in the range that had been seen over the prior several months, though we will admit to having been consistently surprised to the upside by that growth. At some point, however, the pace of job growth figured to slow, even without the FOMC intent on blunting the demand for labor. Aside from the headline job growth number, pay attention to the breadth of job growth; job growth has been notably broad based across private sector industry groups over the past several months and, aside from some softening in retail trade, we expect that to have remained the case in August. Construction and warehousing/distribution would be sectors in which the number of vacancies and the pace of job growth could show signs of fading as higher interest rates and shifting patterns in consumer spending continue to work their way through the broader economy. And, if we're correct in expecting growth in services spending to cool once the summer ends, that will also be reflected in the data on job vacancies and job growth. As we've noted many times over the past several months, however, labor supply has been overwhelmed by labor demand, and without meaningful improvement in supply, wage growth will remain above pre-pandemic norms even with the further erosion of labor demand the FOMC seems intent on bringing about.
August Manufacturing Employment Friday, 9/2 Range: 5,000 to 30,000 jobs Median: 15,000 jobs	Jul = +30,000 jobs	Up by 19,000 jobs.
August Average Weekly Hours Friday, 9/2 Range: 34.5 to 34.7 hours Median: 34.6 hours	Jul = 34.6 hours	Unchanged at 34.6 hours.
August Average Hourly Earnings Friday, 9/2 Range: 0.2 to 0.6 percent Median: 0.4 percent	Jul = +0.4%	Up by 0.3 percent, which would translate into a year-on-year increase of 5.2 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.5 percent increase in aggregate private sector wage and salary earnings, leaving them up 9.7 percent year-on-year.
August Unemployment Rate Friday, 9/2 Range: 3.4 to 3.6 percent Median: 3.5 percent	Jul = 3.5%	Down to 3.4 percent.