ECONOMIC PREVIEW

REGIONS

Week of January 2, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 31-February 1FOMC meeting):* Target Range Mid-point: 4.625 to 4.875 percent Median Target Range Mid-point: 4.875 percent	Range: 4.25% to 4.50% Midpoint: 4.375%	A crowded data docket in a holiday-shortened week will get analysts and market participants back in the swing of things pretty quickly. The highlight of the week is of course the December employment report (see Page 2), which could actually prove to be two reports rolled into one given the potential for sizable revisions to the initial November estimates. The ISM's monthly surveys of the factory and services sectors are expected to show the fortunes of the two broad sectors diverging further, and at this point we think the relevant question is how much longer the services sector can hold out rather than how quickly can the factory sector recover. Wednesday brings the release of the November Job Openings and Labor Turnover Survey (a/k/a JOLTS), and we expect to see both job vacancies and the quits rate to fall further. Wednesday also brings the release of the minutes of the December FOMC meeting, and discussions around slowing inflation, a resilient labor market, and the possibility of the FOMC going too far in pushing the Fed funds rate higher will be of interest.
November Construction Spending Tuesday, 1/3 Range: -0.7 to 0.1 percent Median: -0.4 percent	Oct = -0.3%	Down by 0.4 percent.
December ISM Manufacturing Index Wednesday, 1/4 Range: 47.6 to 49.8 percent Median: 48.5 percent	Nov = 49.0%	Down to 48.3 percent. Our forecast anticipates new orders contracting for a sixth time in the past seven months which along with what were once sizable backlogs of unfilled orders having been greatly pared down sets up a weak trajectory for output and employment in the factory sector. Though not completely resolved, supply chain constraints have eased considerably and improving supplier delivery times have been acting as a drag on the ISM's headline index, which we expect to again be the case in the December data. One indication of how much demand has softened is the plunge in the prices paid index, a gauge of price pressures on non-labor inputs. In the November survey, only six percent of the industry groups in the ISM's survey reported paying higher prices for non-labor inputs, whereas in late-2021 that number was routinely running at one hundred percent. Falling prices for non-labor inputs used by manufacturers are consistent with what have been falling core goods prices in the retail-level inflation data, which we expect to persist well into 2023.
November Trade Balance Thursday, 1/5 Range: -\$80.5 to -\$61.5 billion Median: -\$72.0 billion	Oct = -\$78.2 billion	Narrowing to -\$63.1 billion. The advance data on trade in goods show a significantly smaller trade deficit in November; exports of U.S. goods fell but imports of goods into the U.S. fell much more sharply due to a plunge in imports of consumer goods. It is common for imports of consumer goods to fall in the month of November, as October typically marks the peak of goods imported for the holiday shopping season, but the not seasonally adjusted data show this year's decline is the largest November decline since 2008, reflecting both falling demand and falling goods prices. Imports of industrial goods also declined in November, albeit much more mildly than was the case with imports of consumer goods. The significantly smaller deficit in the goods account should yield a much smaller overall trade gap, which sets the stage for trade to be less of a drag on Q4 real GDP growth than we had anticipated.
December ISM Non-Manufacturing Index Friday, 1/6 Range: 53.3 to 56.1 percent Median: 55.0 percent	Nov = 56.5%	Down to 55.3 percent. In contrast to the manufacturing sector, in which what not too long ago was a robust and broadly based expansion became increasingly slower and narrower, the ISM's survey has shown a sturdy expansion in the broad services sector, and we expect that to have remained the case in December. In another contrast with the manufacturing sector, price pressures on non-labor inputs in the services sector remain intense, which carries through to the inflation data showing core services price inflation still running hot as core goods price inflation is rapidly fading. Thus far, demand for services has been more resilient than we'd anticipated, but how much longer that will be the case remains to be seen. In the several months leading up to the ISM Manufacturing Index falling below the 50.0 percent break between contraction and expansion, we pointed to two details in the ISM survey – the number of industry groups reporting expansion and the prices paid index – as being the most meaningful guides to how demand was holding up. Those will be the same details we watch in the ISM's survey of the services sector.
November Factory Orders Friday, 1/6 Range: -1.8 to 0.2 percent Median: -0.9 percent	Oct = +1.0%	Down by 1.4 percent.

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December Nonfarm Employment Range: 130,000 to 350,000 jobs Median: 200,000 jobs	Friday, 1/6	Nov = +263,000 jobs	Up by 229,000 jobs, with private sector payrolls up by 208,000 jobs and public sector payrolls up by 21,000 jobs. When it comes to the November employment report we remain, with all apologies to *My Morning Jacket*, highly suspicious. That the response rate to the BLS's November establishment survey was just 49.4 percent, matching January 2002 as the lowest response rate since January 1991, immediately casts doubt on the initial estimates of all of the series that flow from the establishment survey, most notably nonfarm employment, average weekly hours, and average hourly earnings. This raises the possibility of sizable revisions to the initial estimates published in the November employment report, which in turn adds considerable uncertainty to forecasts of the December data. Based on the reactions to the November employment report, the low response rate to the establishment survey was either largely unnoticed or deemed to just not matter, and that was particularly true of the reaction to the reported 0.6 percent increase in average hourly earnings. Even those not put off by the low survey response rate should have noticed that the outsized increase in hourly earnings was driven by three industry groups. Hourly earnings in transportation and warehousing were up by 2.5 percent, the largest monthly increase on record and more than five standard deviations above the typical increase, and hourly earnings in retail trade were up by 0.9 percent. Reported earnings in these two industry groups could have been skewed by a push to add seasonal workers. Hourly earnings in information services rose by 1.6 percent, which could reflect the impact of severance payments to laid off tech workers. Hardly a basis on which to make, say, decisions on monetary policy. Again, with so much uncertainty as to what the revised estimates for November will look like, it's hard to know what to expect from the December employment report. We do expect to a high degree of seasonal adjustment noise in industry groups such as construction, leisure and hospitality services, transportation/warehousing, and retail trade. In the first two industry groups, smaller than normal December declines in employment would make the seasonally adjusted data look stronger, while in the latter two industry groups, smaller than normal December increases would make the seasonally adjusted data look weaker. In that sense, seasonal adjustment noise could prove to be a wash. Either way, sorting through what has been a considerable degree of noise in the data over the past several months, such as low response rates and seasonal adjustment issues, leaves a clear slowdown in the pace of job growth, which we expect to carry into 2023.
December Manufacturing Employment Range: 5,000 to 25,000 jobs Median: 10,000 jobs	Friday, 1/6	Nov = +14,000 jobs	Up by 8,000 jobs.
December Average Weekly Hours Range: 34.3 to 34.5 hours Median: 34.4 hours	Friday, 1/6	Nov = 34.4 hours	Unchanged at 34.4 hours. While it is hard to know whether the one-tenth of an hour decline in the average length of the workweek in November was signal or noise, it does go to a point we've been making for some time. To the extent firms are more hesitant to let workers go in this cycle than has been the case in the past, one lever they can pull to manage total labor input is hours worked and based on what we've seen in past cycles, there is still considerable room for average weekly hours to fall before large-scale layoffs become the more feasible alternative for firms. If one-tenth of an hour changes in the average length of the workweek don't seem a big deal, keep in mind that each such change is equivalent to over 300,000 jobs in terms of productive capacity with a commensurate impact on aggregate labor earnings. If we're right on this point average weekly hours will fall further over coming months.
December Average Hourly Earnings Range: 0.2 to 0.6 percent Median: 0.4 percent	Friday, 1/6	Nov = +0.6%	Up by 0.3 percent, for a year-on-year increase of 4.9 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 7.2 percent year-on-year.
December Unemployment Rate Range: 3.5 to 3.8 percent Median: 3.7 percent	Friday, 1/6	Nov = 3.7%	Down to 3.6 percent. With labor force participation still weak, it doesn't take much in the way of job growth to push the jobless rate lower. Moreover, should the "tridemic" have pushed female participation lower in December, there could be downside risk to our below-consensus forecast.

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