ECONOMIC PREVIEW

REGIONS

Week of April 3, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the May 2-3 FOMC meeting):* Target Range Mid-point: 4.875 to 5.125 percent Median Target Range Mid-point: 5.125 percent	Range: 4.75% to 5.00% Midpoint: 4.875%	In addition to the March employment report (see below and Page 2), this week brings the release of the Job Openings and Labor Turnover Survey (JOLTS) for February. One key metric to watch for in the JOLTS data is the quits rate which is a useful indicator of underlying wage pressures, and which is closely watched by the FOMC.
March ISM Manufacturing Index Monday, 4/3 Range: 45.9 to 48.5 percent Median: 47.5 percent	Feb = 47.7%	Down to 47.1 percent, which would mark a fifth straight month of contraction in the factory sector, with our forecast anticipating the ninth contraction in new orders in the past ten months. One hurdle confronting the March headline index is that the seasonal factors the ISM uses to adjust its indexes of new orders, employment, and production are amongst the toughest of any month. Simply put, the seasonal factors are geared for a pick-up in activity in March, meaning that any weakness in the unadjusted data will be magnified in the seasonal adjusted data. One thing that stood out in the February data was jump in the prices paid index, indicating rising input costs for the first time since September despite the factory sector being in contraction. While the prices paid index does not enter into the calculation of the headline index, this is clearly something to watch for in the March data. It is too soon to know whether February's jump in the prices paid index was simply a one-off increase amid a downward trend or whether it reflects firming in global input markets as China's economy more fully reopens. Coming months will bring the answer, which will in turn have clear implications for the path of inflation in the broader economy.
February Construction Spending Monday, 4/3 Range:-0.2 to 0.3 percent Median: 0.0 percent	Jan = -0.1%	Up by 0.2 percent.
February Factory Orders Tuesday, 4/4 Range: -1.0 to -0.2 percent Median: -0.5 percent	Jan = -1.6%	Down by 0.7 percent.
February Trade Balance Wednesday, 4/5 Range: -$72.0 to -$67.0 billion Median: -$68.7 billion	Jan = -$68.3 billion	Widening slightly, to -$68.4 billion.
March ISM Non-Manufacturing Index Wednesday, 4/5 Range: 50.0 to 56.0 percent Median: 54.5 percent	Feb = 55.1%	Down to 54.2 percent. Though our forecast anticipates some moderation in its pace, the expansion in the broad services sector remains broad based and growth in new orders has shown no signs of cracking. The prices paid index in the ISM's survey of the services sector has shown continued upward pressure on input costs, which shows few signs of abating any time soon. As with the ISM's survey of the manufacturing sector, we'll be interested to see whether any of the comments from respondents to the services sector include any instances of firms or their customers having been adversely impacted by the recent events in the banking system.
March Nonfarm Employment Friday, 4/7 Range: 150,000 to 300,000 jobs Median: 240,000 jobs	Feb = +311,000 jobs	Up by 219,000 jobs, with private sector payrolls up by 211,000 jobs and public sector payrolls up by 8,000 jobs. Though to a far lesser degree than is apparent in the January and February data, the March data could be impacted by seasonal adjustment noise. Specifically, the unadjusted data show construction and leisure and hospitality services outperforming historical norms in January and February, which could mean less hiring in March than is typically the case. That would in turn weigh on the reported increase in nonfarm employment on a seasonally adjusted basis. More fundamentally, there has been a seeming disconnect over recent months between a number of layoff announcements and the labor market data, such as the JOLTS data, weekly claims for unemployment insurance, and monthly job growth. While it could be that those being laid off are having relatively little difficulty finding new jobs, it could also be a timing issue – for instance, those laid off but receiving severance payments are not eligible to file for UI while they are receiving payments. Our sense is that the regular labor market data will start to more fully reflect layoffs, which would come on top of the slowdown in job growth that we have for some time been expecting. Aside from the headline job growth number, we'll be watching the employment diffusion index, a measure of the breadth of job growth across private sector industries which we've long pointed to as our favorite beneath the headline metric in the monthly employment reports. Hiring was far less broad based in February than had been the case. Should this continue, it will be a troubling sign.

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March Manufacturing Employment Friday, 4/7 Range: -5,000 to 15,000 jobs Median: 7,000 jobs	Feb = -4,000 jobs	<u>Down</u> by 4,000 jobs.
March Average Weekly Hours Friday, 4/7 Range: 34.4 to 34.5 hours Median: 34.5 hours	Feb = 34.5 hours	<u>Unchanged</u> at 34.5 hours.
March Average Hourly Earnings Friday, 4/7 Range: 0.2 to 0.4 percent Median: 0.3 percent	Feb = +0.2%	<u>Up</u> by 0.3 percent, for a year-on-year increase of 4.2 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 6.6 percent year-on-year.
March Unemployment Rate Friday, 4/7 Range: 3.5 to 3.7 percent Median: 3.6 percent	Feb = 3.6%	<u>Down</u> to 3.5 percent. While the overall labor force participation rate remains below pre-pandemic norms, the participation rate amongst the 25-to-54 year-old age cohort, the "prime working age population," has fully returned, thanks in part to notably large increases in each of the past two months. As such, it isn't clear to us whether the increases in the overall participation rate seen over recent months can be sustained. The answer to that question will have implications for the path of the unemployment rate if, as we expect, the pact of job growth slows in the months ahead.

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