ECONOMIC PREVIEW

REGIONS

Week of May 29, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 13-14 FOMC meeting):* Target Range Mid-point: 5.125 to 5.375 percent Median Target Range Mid-point: 5.125 percent	Range: 5.00% to 5.25% Midpoint: 5.125%	Never have so many been hoping for so few to find jobs and get raises as is the case leading up to the May employment report (see Page 2). Many think a weak report is the only thing that can stop the FOMC from raising the Fed funds rate at their June meeting. Given the recent inflation data, however, even a weak May employment report would likely not be enough to fend off a June funds rate hike.
May Consumer Confidence Tuesday, 5/30 Range: 95.0 to 102.3 Median: 99.0	Apr = 101.3	Down to 99.4, continuing a run of downbeat reads on consumer moods which may on the surface seem at odds with overall household financial conditions and labor market conditions. Though some point to recent moderation in food and energy prices as factors that should be lifting consumer sentiment, it helps to keep in mind that moderating inflation doesn't mean prices are falling, it simply means that prices are rising at a slower pace, so households, particularly lower-to-middle income households, are contending with the cumulative effects of a prolonged period of elevated prices. While aggregate measures such as excess savings, debt-to-income ratios, and debt service burdens show consumers have the wherewithal to maintain spending, it can also be the case that there are pockets of financial stress. Throw in a steady drumbeat of dour headlines featuring the word "crisis" – debt ceiling, banking system, to name the more prominent ones – and it isn't surprising that consumers aren't feeling all that upbeat. At the same time, however, the Conference Board's monthly surveys have shown consumers continue to favorably assess labor market conditions, with the "jobs plentiful/jobs hard to get" spread remaining notably elevated despite some indications that the demand for labor is cooling. Whether or not that favorable assessment still holds will be our main interest in the May data.
Q1 Nonfarm Productivity: 2nd estimate Wednesday, 6/1 Range: -2.8 to -1.7 percent Median: -2.6 percent SAAR	Q1: 1st est. = -2.7% SAAR	Down at an annualized rate of 2.1 percent. From the revised Q1 GDP data, we know that real nonfarm business output grew at an annual rate of 0.5 percent, no great shakes, that, but still better than the initial estimate of 0.2 percent growth. At the same time, recall that March job growth was revised significantly lower than the initial estimate, which meant slower growth in aggregate private sector hours worked than incorporated into the initial estimate of Q1 productivity. The net result should be a smaller contraction in Q1 labor productivity than first estimated, which of course is of little consolation given the notably weak trend rate of productivity growth.
Q1 Unit Labor Costs: 2nd estimate Wednesday, 6/1 Range: 4.0 to 6.4 percent Median: 6.2 percent SAAR	Q1: 1st est. = +6.3% SAAR	Up at an annualized rate of 4.2 percent. In addition to a smaller pullback in labor productivity in Q1, a sharp downward revision to growth in labor earnings should also contribute to slower growth in unit labor costs (the labor cost of producing each unit of output) than initially estimated.
May ISM Manufacturing Index Wednesday, 6/1 Range: 45.5 to 48.5 percent Median: 47.0 percent	Apr = 47.1%	Up to 48.1 percent, which would mark a seventh consecutive month of contraction in the manufacturing sector. What were harsh seasonal adjustment factors dimmed what we found to be some rays of light in the details of the April data, which at least gives something to build off of, especially with far less punitive May seasonal adjustment factors. For instance, though the production index remained below the 50.0 percent break between growth and contraction, it nonetheless rose in April with eleven of the eighteen industry groups reporting higher output. Our sense is that the April seasonal adjustment factor held the production index below 50.0 percent, and we wouldn't be surprised to see it push over that mark in the May data. At the same time, the number of industry groups reporting growth in new orders rose in April but, again, a particularly harsh seasonal adjustment factor weighed on the new orders index. We expect the new orders index to increase in the May survey but to remain below 50.0 percent. Though it does not enter into the calculation of the headline index, we'll be paying particular attention to the prices paid index. After falling sharply over the final months of 2022 as the contraction in the factory sector was in its early phases, the prices paid index reversed course and has been above 50.0 percent in two of the past three months, which in part reflects firming demand for inputs. While a further increase in May would be consistent with our view that a factory sector rebound is starting to take hold, higher input prices do not bode well for the path of core goods inflation, and hence overall inflation, in the months ahead.
April Construction Spending Wednesday, 6/1 Range: 0.1 to 0.4 percent Median: 0.2 percent	Mar = +0.3%	Up by 0.2 percent.

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Indicator/Action Economics Survey:	Last Actual:	Regions' View:
May Nonfarm Employment Friday, 6/2 Range: 100,000 to 235,000 jobs Median: 190,000 jobs	Apr = +253,000 jobs	Up by 169,000 jobs, with private sector payrolls up by 151,000 jobs and public sector payrolls up by 18,000 jobs. Filtering through the usual bumps in the monthly data, the trend rate of job growth is clearly slowing, and the hurdle for May job growth is set higher by tough seasonal adjustment, all of which adds up to our below-consensus forecast. May is typically second only to April as the month with the largest increase in not seasonally adjusted employment, with construction and leisure and hospitality services tending to post sizable gains. As we were noting at the time, the payback for payrolls in these industry groups having held up much better over the winter months than is typically the case would be smaller than normal increases in the spring. That was the case in April, and we expect it will have again been the case in May. If so, the smaller than typical increase in not seasonally adjusted employment be amplified in the headline job growth number. More fundamentally, the slowing trend rate of job growth is far more a function of a slowing pace of hiring than of a rising pace of layoffs (the headline job growth number is a net, not a gross, number). What had seemed a notable increase in initial claims for unemployment insurance is no longer there once the data were rid of fraudulent claims, and the not seasonally adjusted data show jobless claims have not really budged thus far in 2023. Though faced with their own challenges, in the form of notably indifferent response rates, the data from the Job Openings and Labor Turnover Survey (JOLTS) do show a pronounced slowing in the trend rate of hiring which, along with a sharp downward tilt in job vacancies, reflects some cooling in the demand for labor. This is showing up in the slowing trend rate of job growth, and we expect the May data to fall in line with that trend. Albeit slowing, the trend rate of job growth remains more than sufficient to fend off a meaningful and sustained increase in the unemployment rate, though we expect that to change later in 2023. For now, though, there are a few other things to watch for. Tops on our list is the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups. We routinely cite this as our favorite beneath the headline metric in the monthly employment reports, as we see the breadth of job growth as an indicator of the staying power of any expansion. Job growth has been notably less broadly based over recent months, not to the point that the red flag is flying but nonetheless to the point that it bears watching. Additionally, though this point is typically overlooked, hours worked is a key lever used by firms to manage total labor input, which is particularly germane if, as we and most others believe is the case, firms will remain reluctant to let workers go in the face of slowing demand. Aggregate private sector hours worked peaked in January, since dragged down by industry groups such as mining, manufacturing, trade, transportation, and even leisure and hospitality services. While part of this reflects the slowing trend rate of job growth, part of it reflects declines in average weekly hours worked. Absent a rising trend rate of labor productivity growth, clearly not the case at present, declines in aggregate hours worked are a sure sign of slowing economic growth, making this another key point to watch for in the May employment report.
May Manufacturing Employment Friday, 6/2 Range: 0 to 10,000 jobs Median: 5,000 jobs	Apr = +11,000 jobs	Up by 3,000 jobs.
May Average Weekly Hours Friday, 6/2 Range: 34.4 to 34.5 hours Median: 34.4 hours	Apr = 34.4 hours	Unchanged at 34.4 hours. Though having drifted lower, average weekly hours are still well above levels seen during downturns, so there is plenty of play left in this lever should firms need to manage total labor input down further.
May Average Hourly Earnings Friday, 6/2 Range: 0.1 to 0.5 percent Median: 0.3 percent	Apr = +0.5%	Up by 0.1 percent, for a year-on-year increase of 4.2 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.3 percent increase in aggregate private sector wage and salary earnings, leaving them up 6.2 percent year-on-year.
May Unemployment Rate Friday, 6/2 Range: 3.4 to 3.6 percent Median: 3.5 percent	Apr = 3.4%	Unchanged at 3.4 percent.

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