ECONOMIC PREVIEW

REGIONS

Week of June 5, 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%	We've referred to the May employment report as the "yes, but" employment report, as for every seemingly strong data point there is a weak data point elsewhere in the report. Total nonfarm payrolls rose by 339,000 jobs, with private sector payrolls up by 283,000 jobs and public sector payrolls up by 56,000 jobs. One thing that has gone largely unnoticed despite seeming to us to be a screaming red flag is that the response rate to the May establishment survey was 54.7 percent, extraordinarily low even in the post-pandemic period in which response rates have been well below pre-pandemic norms. To that point, this is the lowest May response rate since 2001. In short, the lower the survey response rate, the more gaps there are for BLS to fill in with their own estimates, leaving the initial estimate of May job growth vulnerable to sizable revision. To be sure, any such revision could be higher or lower, though in this case the latter seems more likely. Moreover, even if we set aside concerns over the low survey response rate, what we think to be far more relevant is the reported decline in average weekly hours. The decline in average weekly hours led to a decline in aggregate private sector hours worked despite private sector payrolls rising by 283,000 jobs, with aggregate hours worked a far more relevant indicator of the change in output in any given period than the change in employment. The May household survey data are just, well, weird. Household employment is reported to have fallen by 310,000 persons, hence the jump in the unemployment rate to 3.7 percent from 3.4 percent in April. An increase in participation amongst the 45-to-54 year-old age cohort more than entirely accounts for the modest increase in the labor force, and this is the only age cohort that posted an increase in household employment in May. As if all of that isn't confounding enough, the BLS's measure of household employment that reconciles with the measure of nonfarm employment shows an increase of 394,000 jobs in May. One can make of the May employment what one will. It isn't unusual for the monthly employment report, or for any economic data report for that matter, to send seemingly contradictory signals, but the May employment report does so to a much higher than normal degree. Which is in keeping with the seemingly contradictory signals being send by a wide swath of the economic data. As best as we can tell, while there are signs of some cooling in the demand for labor, the labor market is not on the verge of rolling over and the economy continues to grow, but at what we think will prove to be an increasingly slowing pace.
May ISM Non-Manufacturing Index Monday, 6/5 Range: 50.5 to 53.7 percent Median: 52.4 percent	Apr = 51.9%	Up to 52.2 percent.
April Factory Orders Monday, 6/5 Range: 0.0 to 1.3 percent Median: 0.8 percent	Mar = +0.4%	Up by 1.3 percent. The advance data show a surprising 1.4 percent increase in core capital goods orders in April, bucking the weak trend in place over the prior several months. That increase, however, reflects nothing more than seasonal adjustment flattery, as the not seasonally adjusted data show an 11.8 percent decline in core capital goods orders in April. While the seasonally adjusted estimate will carry into the final report, it will do nothing to alter our view that business investment in equipment and machinery will continue to weaken in the months ahead.
April Trade Balance Wednesday, 6/7 Range: -$79.1 to -$65.5 billion Median: -$75.4 billion	Mar = -$64.2 billion	Widening to -$78.1 billion. The monthly trade data have been extraordinarily volatile over the past several months, and the advance data on trade in goods show April was no exception. For instance, the advance data show exports of U.S. goods were up by 6.0 percent in January, down by 4.9 percent in February, up by 3.1 percent in March, and down by 5.6 percent in April. Anyone inclined to sea sickness is no doubt feeling queasy right about now. Some of this volatility may be straightened out in the revised trade data to be released in conjunction with the full set of April trade data, which adds uncertainty to our forecast. But, if the advance data are anywhere near being on the mark post-revision, the deficit in the goods account will be meaningfully higher in April, offsetting what we expect will be a modestly higher surplus in the services account. If so, trade figures to be a drag on current quarter real GDP growth.

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