ECONOMIC PREVIEW

Week of July 3, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 25-26 FOMC meeting):* Target Range Mid-point: 5.375 to 5.375 percent Median Target Range Mid-point: 5.375 percent	Range: 5.00% to 5.25% Midpoint: 5.125%	The June employment report (see Page 2) is the highlight of a busy holiday-shortened week for data releases. This week also brings the release of the minutes to the June FOMC meeting (Wednesday, 2:00 EST). While the words "fascinating" and "FOMC minutes" are seldom, if ever, used in the same sentence, this could be one such instance. The minutes will no doubt be scoured for any nuggets that might help make sense of the still baffling June FOMC meeting, specifically the unanimous vote to hold the Fed funds rate steady despite an updated dot plot that showed anything but a unanimous view of the appropriate path of the funds rate. Also on tap this week is the release of the Job Openings and Labor Turnover Survey (JOLTS) for the month of May. While the JOLTS data are inherently volatile from month to month, there are clear downward trends in job vacancies, the hiring rate, and the quits rate. Those trends will remain intact in the May data, consistent with our premise that, though not having cracked, the labor market is clearly cooling.
June ISM Manufacturing Index Monday, 7/3 Range: 46.5 to 49.0 percent Median: 47.2 percent	May = 46.9%	Down to 46.8 percent, indicating an eighth straight month of contraction in the factory sector, but it's been difficult to get a clear read on conditions as the survey-based data such and the hard data have not been aligned over recent months. Even within the ISM survey, there are mixed signals, such as the production and employment indexes showing growth in May despite on ongoing contraction in new orders, steadily dwindling backlogs of unfilled orders, and customer inventories being deemed as too high. The ISM's gauge has shown new orders declining in eleven of the past twelve months, and we expect the new orders index to have risen in June while nonetheless remaining below 50.0 percent, signaling further contraction in new orders. In addition to the index readings, the breadth, or lack thereof, of activity will be an indicator of whether things are starting to improve; recall that in the May survey, only four of the eighteen broad industry groups included in the ISM's survey reported growth and only three reported rising new orders. The danger is that with order backlogs having been significantly worked down and customer inventories remaining elevated, without signs of improvement in new orders firms could begin shedding workers they've been holding on to in expectation of a second half rebound. While we do not think firms are yet at that point, many are likely getting uncomfortably close to it. Among the other elements of the June data to watch for, after registering the second-lowest reading on record in May, second only to March 2009, we look for the index of supplier delivery times to have risen in June while remaining well below 50.0 percent, indicative of slack in the factory sector. Also, after sliding sharply, the prices paid index has alternated between signaling rising and falling input prices over the past four months, which is noteworthy in that core goods price inflation (prices of goods excluding food and energy) has proven more resilient than we and many others had expected would be the case. This makes the prices paid index something to watch for in the June data.
May Construction Spending Monday, 7/3 Range: 0.2 to 1.6 percent Median: 0.5 percent	Apr = +1.2%	Up by 0.6 percent. While we do not expect a repeat of the 2.4 percent increase in non-residential construction seen in April, as the non-residential components tend to be rather lumpy, we do expect a stronger increase in residential construction in the May data. It is possible that, after having acted as a drag in each quarter since Q1 2021, residential fixed investment could add to Q2 real GDP growth, and if not, then we should see that transition over 2H 2023. As a side note, the May release will incorporate revisions to the not seasonally adjusted data going back to January 2021 and revisions to the seasonally adjusted data going back to January 2016, which adds an element of uncertainty to forecasts of the May data.
May Factory Orders Wednesday, 7/5 Range: -0.8 to 1.2 percent Median: 0.8 percent	Apr = +0.4%	Down by 0.1 percent. Surprisingly strong orders for durable goods, as reported in the advance estimate, will act as a support for top-line orders growth, though we look for deterioration in orders for nondurable goods to drag total orders lower.
June ISM Non-Manufacturing Index Thursday, 7/6 Range: 50.0 to 53.3 percent Median: 51.3 percent	May = 50.3%	Up to 51.0 percent. Though still indicating expansion, the ISM's gauge of the broad services sector is consistent with a slowing pace of growth. In addition to the headline index, we'll be watching the prices paid index, which has yet to show any let-up in input price increases. This helps account for why core services inflation outside of housing remains so persistent.

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May Trade Balance Thursday, 7/6 Range: -$71.0 to -$64.6 billion Median: -$69.0 billion	Apr = -$74.6 billion	Narrowing to -$68.6 billion. The advance data on trade in goods show a smaller deficit in the goods account in May. Yet, the sizable, and seemingly out of the blue, downward revision to imports in the recently released third estimate of Q1 GDP calls into question everything we've seen in the recent monthly data. So, while we expect a narrower trade deficit in May, we don't have a lot of faith in our forecast but, either way, trade figures to be a material weight on Q2 real GDP growth.
June Nonfarm Employment Friday, 7/7 Range: 124,000 to 275,000 jobs Median: 225,000 jobs	May = +339,000 jobs	Up by 214,000 jobs, with private sector payrolls up by 182,000 jobs and public sector payrolls up by 32,000 jobs. The first order of business will be the revisions to the initial estimate of May job growth, which we see as somewhat suspect given the response rate to the May establishment survey was only 54.7 percent, far below average and the lowest May response rate since 2001. As for the June data, the bar for June seasonal adjustment is set high for leisure and hospitality services and for construction, meaning the seasonally adjusted data could show smaller job gains than many are expecting. One seemingly curious pattern over recent months has been continued robust hiring coupled with declining average weekly hours, suggesting that firms are to some extent engaging in labor hoarding. Reducing weekly hours is a means of contending with faltering demand by firms who, expecting demand, are reluctant to let large numbers of workers go. To that point, aggregate private sector hours worked have fallen in three of the past four months. Past cycles tell us there is further room for cuts in hours worked before firms would see letting workers go as the more feasible option, and it won't surprise us at all to see hours worked fall further later this year. Changes in aggregate hours worked are a far more reliable gauge of changes in output than are changes in the level of employment, so sliding aggregate hours worked fit with our expectation of slowing real GDP growth in the months ahead. Another indicator to watch is the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups. Job growth has become less broadly based over recent months, and should that pattern persist, it would be a hard to ignore red flag implying a turn in the business cycle. We're not at that point yet, but this has long been one of our favorite beneath the headline indicators. To that point, health care and business services have accounted for a meaningfully higher share of job growth over recent months. Either one of them, let alone both of them, slowing down would have an outsized impact on headline job growth, particularly with hiring in manufacturing, information services, wholesale trade, and warehousing/distribution teetering over the past several months.
June Manufacturing Employment Friday, 7/7 Range: -2,000 to 5,000 jobs Median: 5,000 jobs	May = -2,000 jobs	Down by 2,000 jobs.
June Average Weekly Hours Friday, 7/7 Range: 34.3 to 34.4 hours Median: 34.3 hours	May = 34.3 hours	Unchanged at 34.3 hours.
June Average Hourly Earnings Friday, 7/7 Range: 0.3 to 0.4 percent Median: 0.3 percent	May = +0.3%	Up 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 5.9 percent year-on-year, which would be the smallest such increase since March 2021.
June Unemployment Rate Friday, 7/7 Range: 3.5 to 3.8 percent Median: 3.6 percent	May = 3.7%	Down to 3.5 percent. One thing that stood out in the May employment report was the reported 310,000 person decline in household employment, which at the time we could only describe as "weird." That decline was not only in stark contrast to the reported increase in nonfarm payrolls, but also pushed the unemployment rate up to 3.7 percent from 3.4 percent in April. We look for some reversal in the June data, with the jobless rate settling back to 3.5 percent. One wild card in the data will be participation and employment amongst young adults, as in most years May and June see an influx of summer job seekers. A later end to school years held down the May increase, suggesting June could see a larger than normal increase. This is something that could alter the unemployment rate one-tenth of a point in either direction, depending on how many young adults join the labor force and how many find jobs.

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