ECONOMIC PREVIEW

REGIONS

Week of August 28, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 19-20 FOMC meeting):* Target Range Mid-point: 5.375 to 5.625 percent Median Target Range Mid-point: 5.375 percent	Range: 5.25% to 5.50% Midpoint: 5.375%	The August employment report (see Pages 2 and 3) may be much more noise than signal. The SAG-AFTRA strike, Yellow Inc.'s bankruptcy, and what we have long, but not so fondly, referred to as the dreaded August effect would each have the potential to move the headline job growth number, but in concert could have a substantial impact on the initial estimate of August job growth. This week also brings the release of the July JOLTS data (Tuesday), which we expect will show a further decline in job vacancies as the hiring and quits rates continue to drift lower. The July data on total consumer spending will show a jump in spending that will push Q3 real GDP growth higher than had been anticipated, but we do not see July's pace of spending growth as being sustainable. Finally, the August ISM Manufacturing Index (Page 3) will show a tenth straight month of contraction in the factory sector, but we'll be watching the new orders index for any signs that a bottom may be forming.
August Consumer Confidence Tuesday, 8/29 Range: 110.0 to 120.0 Median: 116.0	Jul = 117.0	Down to 116.2, with sharply higher retail gasoline prices putting a bit of a damper on the significant improvement in consumers' moods seen over the prior two months. That said, consumers' assessments of labor market conditions were markedly better in the July survey, and to the extent that remained the case in August it should check any deterioration in the headline confidence number.
July Advance Trade Balance: Goods Wednesday, 8/30 Range: -\$95.0 to -\$85.0 billion Median: -\$90.0 billion	Jun = -\$88.8 billion	Widening to -\$89.3 billion.
Q2 Real GDP: 2nd estimate Wednesday, 8/30 Range: 2.0 to 2.6 percent Median: 2.4 percent SAAR	Q2: 1st est. = +2.4% SAAR	Up at an annualized rate of 2.5 percent.
Q2 GDP Price Index: 2nd estimate Wednesday, 8/30 Range: 2.2 to 2.3 percent Median: 2.2 percent SAAR	Q2: 1st est. = +2.2% SAAR	Up at an annualized rate of 2.2 percent.
July Personal Income Thursday, 8/31 Range: 0.1 to 0.5 percent Median: 0.3 percent	Jun = +0.3%	Up by 0.4 percent. Our forecast anticipates a trend-like increase in private sector labor earnings with transfer payments bouncing back after falling slightly in June. We also look for a healthy advance in asset-based income, with dividend income rebounding after a sizable decline in June and interest income posting another solid advance. Our forecast would leave total personal income up 4.9 percent year-on-year and private sector wage and salary earnings up 4.7 percent, which would be the smallest such increase in the latter category since February 2021. Slowing job growth and the softening trend in aggregate hours worked are taming growth in total labor costs which, as we frequently note, is far more relevant to firms than the more commonly cited average hourly earnings metric.
July Personal Spending Thursday, 8/31 Range: 0.3 to 0.8 percent Median: 0.7 percent	Jun = +0.5%	Up by 0.8 percent. Control retail sales – which directly enter into the BEA's measure of consumer spending on goods – rose by 1.0 percent in July, putting a solid floor under total consumer spending. It remains to be seen, however, how much of the strength in July spending on goods reflects spending having been pulled forward by what was the highest-volume *Amazon Prime Day(s)* in the history of that event. Our forecast anticipates the largest monthly increase in services spending since January, fueled in part by a couple of large-scale concert tours that triggered extraordinary volumes of related spending, with a powerful assist from the "Barbenheimer" blockbusters, though their late-July releases mean they could have a bigger impact in the August data. Either way, the strength in entertainment spending seen in July/August won't be sustained, which is part of why we have expected a meaningful slowdown in services spending come the end of summer. At the same time, the latest batch of earnings reports and generally tepid guidance from retailers ranging from discount to higher end suggests goods spending won't be providing any meaningful offset to any slowdown in services spending. As such, our baseline forecast anticipates real consumer spending basically flatlining over coming months.
July PCE Deflator Thursday, 8/31 Range: 0.1 to 0.3 percent Median: 0.2 percent	Jun = +0.2%	Up by 0.2 percent, which would yield a year-on-year increase of 3.3 percent. We look for the core PCE Deflator to be up by 0.2 percent, yielding a year-on-year increase of 4.3 percent.

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August Nonfarm Employment Friday, 9/1 Range: 120,000 to 230,000 jobs Median: 170,000 jobs	Jul = +172,000 jobs	Up by 158,000 jobs, with private sector payrolls up by 112,000 jobs and public sector payrolls up by 46,000 jobs. Whatever the August job growth number turns out to be, it may not be all that informative given the number of special factors it will bring into play. First and foremost, the effects of the SAG-AFTRA strike will show up in the August establishment survey data, which will take over 16,000 jobs off the level of private sector payrolls, to which we can tack on another roughly 1,800 jobs from the strike amongst Southern California hotel workers. Recall one has to be present at work at some point during the reference week to be counted as employed that in the establishment survey data. Additionally, freight hauler Yellow, Inc. shuttering operations will also show up in the August data, which could knock private sector payrolls down by between 20,000 to 30,000 jobs; the actual impact will likely be on the lower end of that range but will be substantial either way. Additionally, there's the dreaded "August effect" which in past years has resulted in August job growth being significantly undercounted in the initial estimate, mainly reflecting response rates to the August establishment survey being lower than in other months. That said, there was no August effect last year, with the initial estimate of August job growth revised down by a net 23,000 jobs over the subsequent two months, a far cry from the average net upward revision of 82,000 jobs over the prior twelve years. It could be that with survey response rates so notably low since the onset of the pandemic, August no longer stood out and, coming off three months in which response rates have been low even by post-pandemic standards, it could be that there will be no August effect this year. In any event, it is reasonable to add back striking workers as they will again be counted once these strikes are resolved, but even doing so will likely show further deceleration in the trend rate of job growth which, along with a softening trend in hours worked, is a sign of cooling demand for labor. To be sure, slowing job growth has thus far been strictly due to a lower rate of hiring as opposed to a rising rate of layoffs (recall the headline job growth number is a net, not a gross, number), but should hours worked continue to drop off, you have to figure that layoffs will begin to rise at some point. Another troubling detail in the data over the past few months is that job growth has become notably less broad based across private sector industry groups, so that's also something we'll be watching in the August data. Our forecast does anticipate another large increase in public sector payrolls, in part reflecting education workers coming back to work at the start of the school year, but also in part reflecting continued robust hiring outside of education amongst state and local governments as infrastructure work ramps up. Finally, the August employment report will have to be viewed in the context of the looming benchmark revisions to the data on nonfarm employment, hours, and earnings. Last week BLS released their preview of those revisions, suggesting the level of private sector payrolls as of March 2023 would be marked down by 358,000 jobs. Sure, on a base of roughly 134 million jobs, that may not seem like much, but that is nonetheless a larger revision (on a percentage change basis) than is typically seen, suggesting that, while still tight, the labor market is not as tight as the data have been suggesting over the course of 2023. Along those same lines, the initial estimate of job growth for each of the first six months of 2023 was subsequently revised lower, a not uncommon pattern in times of a slowing economy and a cooling labor market. The release of the August data will be our fist look at how the initial estimate of July job growth is faring, and a downward revision won't be at all surprising.
August Manufacturing Employment Friday, 9/1 Range: -9,000,000 to 5,000 jobs Median: 1,000 jobs	Jul = -2,000 jobs	Up by 2,000 jobs.
August Average Weekly Hours Friday, 9/1 Range: 34.3 to 34.4 hours Median: 34.3 hours	Jul = 34.3 hours	Unchanged at 34.3 hours.
August Average Hourly Earnings Friday, 9/1 Range: 0.2 to 0.4 percent Median: 0.3 percent	Jul = +0.4%	Up by 0.3 percent, for a year-on-year increase of 4.3 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 5.8 percent year-on-year.

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August Unemployment Rate Range: 3.5 to 3.6 percent Median: 3.5 percent	Friday, 9/1	Jul = 3.5%	Unchanged at 3.5 percent. While striking workers do not impact the unemployment rate, as they are still counted as employed in the household survey data, workers displaced by Yellow, Inc, shuttering operations who have not yet found new positions will be counted as unemployed, though that number will not be large enough to move the jobless rate. A potentially bigger effect could come from seasonal adjustment noise tied to young adults exiting the labor force to return to school. As this year's inflow of younger job seekers was smaller than normal, the August seasonal factors could overcompensate, resulting in the size of the labor force being artificially inflated which, in turn, would push the jobless rate higher. This will be easy enough to see in the not seasonally adjusted data, but, as with the headline August job growth number, the August unemployment rate may not mean what it seems to mean.
August ISM Manufacturing Index Range: 45.5 to 48.8 percent Median: 47.0 percent	Friday, 9/1	Jul = 46.4%	Up to 47.4 percent, marking the tenth straight month of contraction in the factory sector. Manufacturing tends to be more sensitive to changes in interest rates than most other sectors and, with rates looking to stay higher for longer, that spells a continued rough road for the factory sector, particularly as weakening global growth chokes off support from exports of U.S.-made goods. It is also worth noting that while transportation equipment – particularly production of civilian aircraft and motor vehicles – has been a pocket of support for U.S. manufacturing, there are growing questions as to how much longer that support will last. For instance, with production having ramped up and higher rates weighing on demand, inventories of motor vehicles, on both the manufacturing and retail levels, have increased sharply over recent months after adjusting for price changes. As such, vehicle manufacturers could slam the brakes on production in fairly short order. As always, our focus will be on the ISM's gauge of new orders, which has shown orders contracting in thirteen of the past fourteen months, including the last eleven in a row. While we look for the new orders index to have risen in August, we nonetheless expect it to remain below the 50.0 percent break between contraction and expansion.
July Construction Spending Range: -0.4 to 0.9 percent Median: 0.5 percent	Friday, 9/1	Jun = +0.5%	Up by 0.6 percent.

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