ECONOMIC PREVIEW

REGIONS

Week of July 31, 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%	While many won't go beyond the headline numbers from the July employment report, the details beneath those headline numbers will tell a more meaningful story of labor market conditions, as we discuss on Page 2. This week also brings the release of the JOLTS data for June (Tuesday), which should show job vacancies declining but remaining far above pre-pandemic levels.
July ISM Manufacturing Index Tuesday, 8/1 Range: 45.6 to 48.5 percent Median: 46.9 percent	Jun = 46.0%	Up to 47.2 percent, marking the ninth consecutive month of contraction in the factory sector. Though our forecast anticipates some improvement, we nonetheless look for the new orders index to remain below the 50.0 percent break between contraction and expansion for the twelfth time in the past thirteen months. Along with backlogs of unfilled orders having been significantly worked down, the ongoing slide in new orders suggests little upside for output and employment in the manufacturing sector over coming months. Data on factory orders, industrial production, and employment show a stark divide between producers of durable and non-durable goods, with producers of durable goods on the right side of that divide. Even there, however, growth remains highly concentrated amongst producers of transportation equipment, and we think it but a matter of time before demand for aircraft and motor vehicles begins to fade. In short, it's hard to see a catalyst for a rebound in the manufacturing sector over the near-term, particularly as wobbly global growth continues to put a squeeze on export orders for manufactured goods. Finally, against the backdrop of rising energy and commodity prices over recent weeks, it will be interesting to see whether the prices paid index shows further declines in input prices. Either way, the increases in energy and commodity prices suggest it is too soon to write the obituary for goods price inflation, even in the face of weaker final demand.
June Construction Spending Tuesday, 8/1 Range: -0.5 to 1.2 percent Median: 0.6 percent	May = +0.9%	Up by 0.9 percent.
Q2 Nonfarm Labor Productivity Thursday, 8/3 Range: 0.0 to 3.5 percent Median: 2.2 percent SAAR	Q1 = -2.1% SAAR	Up at an annualized rate of 2.3 percent. Real output in the nonfarm business sector grew at an annualized rate of 2.4 percent in Q2. At the same time, data from the monthly employment reports show aggregate private sector hours worked rose by just 0.2 percent, annualized, in Q2 along with a sharp drop-off in hours worked amongst the self-employed. This sets the stage for the fastest rate of productivity growth since Q4 2021 which, unfortunately, would not be sufficient to offset the weakness seen over the past several quarters. Our forecast would still leave labor productivity declining on an eight-quarter moving average basis, our preferred gauge of the underlying trend in productivity. Amongst the many reasons this matters is that the absence of sustained productivity growth means higher wage costs take bigger and bigger bites out of profit margins, which we see as having contributed to the slide in margins reported in the GDP data over the past several quarters.
Q2 Unit Labor Costs Thursday, 8/3 Range: 0.5 to 3.1 percent Median: 2.5 percent SAAR	Q1 = +4.2% SAAR	Up at an annualized rate of 1.9 percent. While productivity growth helped keep a lid on unit labor costs (labor costs per each unit of output produced) in Q2, the weak trend-rate of productivity has sustained trend (i.e., the eight-quarter moving average) growth in unit labor costs at a significantly faster rate than the pre-pandemic trend. This goes straight to our above point on margin pressures.
June Factory Orders Thursday, 8/3 Range: -0.5 to 3.2 percent Median: 2.2 percent	May = +0.3%	Up by 2.2 percent. Durable goods orders surged on a significant increase in orders for nondefense aircraft. That will be enough to carry total orders for manufactured goods higher even if, as we expect, orders for nondurable manufactured goods fall further. Core capital goods orders will have softened following a surprisingly strong run over the prior two months.
July ISM Non-Manufacturing Index Thursday, 8/3 Range: 52.0 to 54.7 percent Median: 53.0 percent	Jun = 53.9%	Down to 53.3 percent, consistent with further expansion in the broad services sector. We'll be watching for the breadth of the expansion – recall that in June fifteen of the eighteen broad industry groups reported growth – for signs that new orders may be beginning to waver after a long stretch of solid and broad based growth. We'll also be watching the prices paid index; while the prices paid index does not enter into the calculation of the headline index, it does nonetheless show continued increases in input costs, albeit at a moderating pace, helping to account for why much of the inflation pressures facing the broader economy reside in the services sector.

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July Nonfarm Employment Friday, 8/4 Range: 150,000 to 280,000 jobs Median: 200,000 jobs	Jun = +209,000 jobs	Up by 212,000 jobs, with private sector payrolls up by 179,000 jobs and public sector payrolls up by 33,000 jobs. Though signs still point to cooling demand for labor, there are reasons – patterns in initial claims for unemployment insurance, consumers' assessments of labor market conditions – to think July saw a larger gain in nonfarm payrolls than that seen in June. Estimates of monthly changes in nonfarm payrolls continue to be plagued by low response rates to the BLS's establishment survey, which continue to run well below pre-pandemic norms. As such, we'll be watching for revisions to the initial estimate of June job growth and further revision to a May number which, despite having been marked down once, still looks suspiciously large to us. In any event, though top-line job growth remains solid, we've pointed to three disturbing details in the monthly data: first, job growth has become notably less broad based over the past several months; second, the trend in aggregate private hours worked has softened considerably; and, third, June saw a spike in the number of people working part-time due to slack business conditions. As such, these are at the top of the list of things to watch for beneath the headline July job growth number, with the obvious caveat that the economic data do not move in straight lines, meaning that it is the underlying trends, not a single number in a single month, that tell the true story. We continue to look for the pace of job growth to slow considerably in the months ahead as the pace of overall economic activity does the same. Moreover, we continue to expect the BLS's preview, due on August 23, of the upcoming benchmark revisions to the establishment survey data to show job growth has been overstated, perhaps significantly, over the prior few quarters, which would help reconcile the mixed messages being sent by headline job growth and some of the underlying details in the data.
July Manufacturing Employment Friday, 8/4 Range: 3,000 to 10,000 jobs Median: 5,000 jobs	Jun = +7,000 jobs	Up by 4,000 jobs.
July Average Weekly Hours Friday, 8/4 Range: 34.3 to 34.4 hours Median: 34.4 hours	Jun = 34.4 hours	Unchanged at 34.4 hours. Aggregate private sector hours worked have declined in three of the past four months and increased at an annual rate of just 0.2 percent in Q2. If our forecasts of job growth and hours worked are on the mark, July will have seen a solid increase in aggregate hours, but that would likely prove to be no more than a strong reading amid a softening trend. That would in turn have implications for growth in personal income, as labor earnings are the largest single component.
July Average Hourly Earnings Friday, 8/4 Range: 0.2 to 0.5 percent Median: 0.3 percent	Jun = +0.4%	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 5.8 percent year-on-year, which would be the smallest such increase since March 2021.
July Unemployment Rate Friday, 8/4 Range: 3.5 to 3.7 percent Median: 3.6 percent	Jun = 3.6%	Down to 3.5 percent.

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