ECONOMIC PREVIEW

REGIONS

Week of September 4, 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%	Though many are heralding the August employment report as evidence of the economy easing into a "soft landing" and others are hailing it as a "dream report" (seriously?) for the FOMC, we see it as little more than a jumbled mass of noise that tells us very little about the state of the labor market. Sure, the superlatives being hurled about to describe the report may be perfectly fitting, but only if one goes no further than the headline numbers. The deeper one looks into the report, however, the less one actually sees, which kind of makes the August employment report the economic data release equivalent of Ken (if you're asking "Ken who?" then, really, get with it . . .). Right off the bat, the response rate to the August establishment survey was just 59.3 percent, and while we've noted response rates have generally been much lower since the onset of the pandemic, this is the second lowest monthly response rate since that point. As such, the initial estimates of nonfarm payrolls, hours, and earnings should all be considered highly suspect. To that point, prior estimates of job growth in June and July were revised down by a net 110,000 jobs for the two-month period, a notably large revision. Moreover, with the initial estimate of July job growth having been revised downward, that means that in each month of this year the initial estimate of job growth has been revised lower, a streak only the 2015-2016 Philadelphia 76ers could love. As to the reported moderation in wage growth, aside from any issues stemming from the low survey response rate, an early end to the August survey period likely biased the estimate of average hourly earnings lower, as is typical in months in which the survey period cuts off prior to the middle of the month. As to the unemployment rate rising to 3.8 percent from 3.5 percent in July for the "right" reason, i.e., an increase in labor force participation, almost half of the reported increase in the labor force in the seasonally adjusted data was accounted for by those in the 16-to-24 year-old age cohort. This is nothing more than seasonal adjustment noise, as the not seasonally adjusted data show the number of those in this age cohort in the labor force fell by 863,000 in August, reflecting younger adults exiting the labor force to return to school. That this was a smaller than normal August decline accounts for the reported increase in the seasonally adjusted data. This noise, which we warned of in last week's *Preview*, has consequences, as it added two-tenths of a point to the unemployment rate by our estimate. This casts doubt, or at least should, on just how much labor conditions eased in August. Our sense is that the labor market is cooling but, unfortunately, much of the labor market data, including the monthly employment reports and the JOLTS data, have become increasingly less reliable. As such, analysts, policy makers, and market participants making decisions based on these estimates can easily be led astray.
July Factory Orders Range: -5.2 to -0.1 percent Median: -2.5 percent	Tuesday, 9/5	Jun = +2.3%	Down by 2.4 percent.
July Trade Balance Range: -\$69.2 to -\$65.7 billion Median: -\$68.0 billion	Wednesday, 9/6	Jun = -\$65.5 billion	Widening to -\$68.1 billion.
August ISM Non-Manufacturing Index Range: 51.2 to 53.9 percent Median: 52.5 percent	Wednesday, 9/6	Jul = 46.4%	Down to 52.4 percent. The two key components to watch will be new orders and prices paid. Growth in new orders has been robust and broad based over the past several months, and a change in either trait would be a signal that the expansion in the broad services sector is losing steam. While the prices paid index does not enter into the calculation of the headline index, it is worthy of attention given that services price inflation remains the key source of overall inflation pressures. The ISM's gauge thus far has shown little let-up in the pace or breadth of input price increases.
Q2 Nonfarm Productivity: 2nd estimate Range: 2.8 to 3.8 percent Median: 3.4 percent SAAR	Thursday, 9/7	Q2: 1st est. = +3.7% SAAR	Up at an annualized rate of 3.5 percent. Both the rate of growth in real nonfarm business output and the rate of growth in aggregate private sector hours worked in the nonfarm business sector have been revised lower since the initial release of the Q2 productivity data. The net result should be a modest markdown in the initial estimate of Q2 productivity growth and modestly faster growth in unit labor costs.
Q2 Unit Labor Costs: 2nd estimate Range: 1.5 to 2.3 percent Median: 1.9 percent SAAR	Thursday, 9/7	Q2: 1st est. = +1.6% SAAR	Up at an annualized rate of 1.9 percent.