Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the October 31- November 1 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 core PCE Deflator rose by just 0.1 percent in August, the smallest monthly increase since November 2020, which put the year-on-year increase at 3.9 percent, the first sub-4.0 percent print since June 2021. Keep in mind that the PCE Deflator is the FOMC's preferred gauge of inflation, and one implication of the August data is that the FOMC's most recent projections of inflation, issued in conjunction with their September meeting, are likely much too high, at least barring a sharp and sudden reversal of course. Obviously, 3.9 percent is still almost double the FOMC's 2.0 percent target, and while it would still be unrealistic to expect Fed funds rate cuts any time soon, further moderation in core PCE inflation and core PCE inflation excluding housing, a metric which Chair Powell puts considerable emphasis on, would at least make further funds rate hikes even less likely. That said, market interest rates have risen sharply of late, particularly longer-term rates, which will have far more of an impact on the economy than any change in the Fed funds rate.
September ISM Manufacturing Index Monday, 10/2 Range: 46.9 to 49.0 percent Median: 47.7 percent	Aug = 47.6%	Up to 48.7 percent. Friendly seasonal adjustment factors account for some of the increase our forecast anticipates, but our forecast would nonetheless leave the top-line index below 50.0 percent for an eleventh straight month and the key new orders index below 50.0 percent for a thirteenth straight month. With the possibility that favorable seasonal adjustment could skew index readings for new orders, production, employment, and inventories, we'll pay more attention to the percentage of firms reporting growth in the above components. Additionally, the indexes of prices paid, order backlogs, and supplier delivery times are not seasonally adjusted, offering a cleaner read on whether conditions in the factory sector are at least stabilizing. It will also be interesting to see if the September data show any effects from the UAW strike as transportation equipment has been one industry group consistently reporting growth over the past several months. It's been a tough slog for manufacturing, but with flagging global growth, elevated energy prices, and further increases in interest rates, it may be a while before the current contraction runs its course.
August Construction Spending Monday, 10/2 Range: 0.2 to 0.7 percent Median: 0.6 percent	Jul = +0.7%	Up by 0.4 percent.
August Factory Orders Wednesday, 10/4 Range: -0.5 to 1.3 percent Median: 0.3 percent	Jul = -2.1%	Up by 0.8 percent. The preliminary August data on durable goods orders showed a surprising spike in orders for core capital goods, but much of the luster of that was taken off by a meaningful downward revision to the July data. One element of the data we've had our eyes on is that core capital goods orders have come in below core capital goods shipments in each of the past ten months, suggesting that shipments are being supported by order backlogs being worked down. To the extent that is the case, there is only so long it can last, meaning that coming months could see a meaningful softening in core capital goods shipments, which feed into the GDP data on business investment in equipment and machinery. Our forecast anticipates another hefty increase in orders for nondurable goods, in large measure driven by higher prices, will lend support to growth in top-line orders.
Sep. ISM Non-Manufacturing Index Wednesday, 10/4 Range: 52.0 to 54.5 percent Median: 53.5 percent	Aug = 54.5%	Down to 53.8 percent. In contrast to the manufacturing survey, the seasonal factors used to adjust the data from the services survey will work against the September data. More fundamentally, we look for signs of slower growth in the broad services sector, at least in part on pullbacks in consumer spending on discretionary services and in residential real estate. Another, and more stark, contrast to the ISM's manufacturing survey is the behavior of the prices paid index; while manufacturers have been seeing declines in input prices, firms in the services sector continue to face rising input prices, to the point that September will in all likelihood mark the seventy-sixth straight month of higher input prices. It may seem that a streak this impressive would be hard to overlook, but with so much attention focused on labor costs, what has been persistent and broadly based upward pressure on input prices has indeed gone largely unnoticed. Not by the firms paying these prices, of course, but by many trying to account for frustratingly persistent inflation.
August Trade Balance Thursday, 10/5 Range: -$66.2 to -$55.7 billion Median: -$64.3 billion	Jul = -$65.0 billion	Narrowing to -$59.3 billion thanks to a sharp reduction in the deficit in the goods account. The August data will put trade on track to be a support for Q3 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

ECONOMIC PREVIEW

REGIONS

Week of October 2, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
September Nonfarm Employment Friday, 10/6 Range: 135,000 to 250,000 jobs Median: 168,000 jobs	Aug = +187,000 jobs	Up by 181,000 jobs, with private sector payrolls up by 145,000 jobs and public sector payrolls up by 36,000 jobs. As we discussed upon its release, the August employment report was a hodgepodge of noise and mixed messages, making it difficult to come away with any firm conclusions regarding the labor market conditions. This of course raises the question of whether an employment report full of noise is preferable to no employment report at all, as the release of the September report could fall prey to a partial shutdown of the federal government. Regardless of when we actually see it, the September employment report will be impacted by the noise in the August report, at least to the extent the August data survive revision. For instance, the August data show a decline in payrolls in the education segment of state and local governments at odds with the start of the school year, which we expect to be made up for in the September data. And, of the three-tenths of a point increase in the unemployment rate reported in the August data, we estimate two-tenths of that was nothing more than seasonal adjustment noise and, again, expect the September data to bring at least a partial reversal. In what is becoming a regular feature of our previews of the monthly employment reports, i.e., an update of the impact of labor strikes, the UAW strike will not impact the September data. While the strike did begin in September, the start overlapped with the establishment survey period, and that workers were on the job for at least part of that week means they'll be counted as employed in the September data. Striking SAG-AFTRA workers will not be counted as employed in September, but they were not counted in the August data, so there will be no impact on the monthly change in employment after a hit of roughly 17,000 jobs in the August data. One ongoing issue raising questions, at least for us, about the reliability of the data in the monthly employment reports is that response rates to the establishment surveys have been notably low since the onset of the pandemic. Indeed, the initial response rate to the August survey was the second lowest of any month since the onset of the pandemic, thus exposing the initial August estimates to sizable revision. Sure, it could be worse, the response rates to the establishment survey are at least higher to the response rates to the JOLTS surveys. Somehow, though, that doesn't make us feel all that much better about the quality of the establishment survey data. Through all of the noise in the data, it does seem clear that the trend rate of job growth has slowed meaningfully over the past several months, and it makes more sense to focus on that underlying trend than on the monthly headline number. Other trends to watch are what has become a narrower base of hiring across private sector industry groups and what has been a softening trend in aggregate hours worked. Thus far slowing job growth has strictly been a function of the slowing rate at which firms are adding jobs, as opposed to a rising pace of layoffs. If, however, the base of hiring continues to narrow and hours worked continue to drift lower, it would seem only a matter of time before layoffs would begin to rise. That would be an ominous sign for what feels like an increasingly tenuous expansion in the broader economy.
September Manufacturing Employment Friday, 10/6 Range: 4,000 to 10,000 jobs Median: 5,000 jobs	Aug = +16,000 jobs	Up by 6,000 jobs.
September Average Weekly Hours Friday, 10/6 Range: 34.3 to 34.4 hours Median: 34.4 hours	Aug = 34.4 hours	Unchanged at 34.4 hours.
September Average Hourly Earnings Friday, 10/6 Range: 0.2 to 0.4 percent Median: 0.3 percent	Aug = +0.2%	Up by 0.4 percent, for a year-on-year increase of 4.4 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.5 percent increase in aggregate private sector wage and salary earnings, leaving them up 5.7 percent year-on-year.
September Unemployment Rate Friday, 10/6 Range: 3.6 to 3.9 percent Median: 3.7 percent	Aug = 3.8%	Down to 3.6 percent. The reported spike – up by 733,000 persons – in the labor force in August was largely seasonal adjustment fiction centered around those in the 16-24 year-old age cohort, a cohort for which the unadjusted data show a decline of over 800,000 while the seasonally adjusted data show an increase of 300,000. We had warned of this ahead of the August report, and expect the September report to show at least partial payback, pushing the jobless rate back down to where it had been.

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

This Economic Preview may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information, which is believed to be reliable and on past, current, and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Preview. The Contents of this Economic Preview reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Preview or with respect to any results arising therefrom. The Contents of this Economic Preview shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.