ECONOMIC PREVIEW

REGIONS

Week of October 30, 2023

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 5.375 percent Median Target Range Mid-point: 5.375 percent	Range: 5.25% to 5.50% Midpoint: 5.375%	The FOMC will almost surely leave the Fed funds rate unchanged at this week's meeting, but market participants may still find themselves rattled on Wednesday when the Treasury Department unveils its latest quarterly refunding needs. Recall that the prior quarterly announcement shook the markets, opening eyes to the scope of borrowing needs. While this week's release won't be as shocking, it will reinforce concerns over supply that are helping prop up yields, thus raising borrowing costs.
Q3 Employment Cost Index Tuesday, 10/31 Range: 0.5 to 1.1 percent Median: 1.0 percent	Q2 = +1.0%	Up by 0.9 percent, with wage costs up by 0.9 percent and benefit costs up 1.0 percent. On a year-on-year basis, our forecast would leave the total ECI up by 4.2 percent, with wage costs up 4.3 percent and benefit costs up 4.2 percent, with the year-on-year increase in wage costs the smallest such increase since Q3 2021. Though off the peak seen in 2022, wage growth remains faster than the pre-pandemic trend rate and we expect that to remain the case, in part a function of what we expect to remain a persistent gap in participation relative to pre-pandemic norms.
October Consumer Confidence Tuesday, 10/31 Range: 98.0 to 105.0 Median: 100.0	Sep = 103.0	Down to 101.4. While falling gasoline prices may support assessments of current conditions, expectations of future conditions remain mired at levels which in the past have been consistent with the economy being in or close to recession. It is also worth noting that consumers' assessments of labor market conditions have dimmed considerably over recent months. Consumers losing faith in the labor market would be much more impactful in terms of spending/saving decisions than would be movements in the headline confidence index. Recall that the jobs plentiful/jobs hard to get spread has long been a reliable indicator of turns in the business cycle.
October ISM Manufacturing Index Wednesday, 11/1 Range: 47.8 to 49.7 percent Median: 49.0 percent	Sep = 49.0%	Up to 49.6 percent. While our forecast anticipates a twelfth straight month of contraction in the factory sector, we look for the headline index to be closing in on the breakeven point of 50.0 percent. Recent months have brought some signs of stabilization, but that still leaves the factory sector well short of anything resembling vigorous growth. While it would not surprise us to see the new orders index push over 50.0 percent, pay particular attention to the breadth of orders growth. Though the new orders index hit its highest level in over a year in August, only five of the eighteen industry groups reported orders growth, and each month since June 2022 has seen fewer than half of the industry groups have report orders growth. Though not tending to get much notice, the ISM's gauge shows manufacturing inventories contracting in each of the past eight months, a sign that firms continue to see a highly uncertain demand outlook and continue to stress disciplined inventory management. Finally, the prices paid index continues to indicate downward pressure on input costs, with weak demand giving buyers latitude to negotiate terms on input purchases.
September Construction Spending Wednesday, 11/1 Range: 0.1 to 0.7 percent Median: 0.4 percent	Aug = +0.5%	Up by 0.3 percent.
Q3 Nonfarm Labor Productivity Thursday, 11/2 Range: 2.8 to 4.5 percent Median: 4.3 percent SAAR	Q2 = +3.5% SAAR	Up at an annualized rate of 4.5 percent. The Q3 productivity data will incorporate the BEA's recent comprehensive updates to the data from the National Income and Product Accounts (NIPA). As such, there will be revisions to the recent historical data on productivity growth and, in turn, unit labor costs, though we do not expect these to meaningfully change the tone of the data showing a weak trend in labor productivity . As for Q3, the BEA's initial estimate of Q3 GDP shows real nonfarm business output expanded at an annual rate of 5.9 percent, considerably faster than real GDP growth. We also know aggregate nonfarm private sector hours worked grew at an annual rate of 1.5 percent in Q3, with a slight offset from a decline in hours worked amongst the self-employed. What we do not have a sense of is how the other measures of hours worked the BLS uses in its estimates of productivity growth fared in Q3, but, either way, the result should be the fastest quarterly growth in labor productivity since Q3 2020. Even if our forecast is on or near the mark, however, the trend rate of productivity growth, which we measure by the eight-quarter moving average, would still be notably weak even though it would break above zero after five quarters of declines. An improvement, yes, but not exactly heralding a modern "productivity miracle" such as that seen over the 1995-2005 period. While we may not ever put up another decade of annual productivity growth of 3.0 percent, coming close to that will be key to overcoming binding labor supply constraints.

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Q3 Unit Labor Costs Thursday, 11/2 Range: -0.5 to 2.2 percent Median: 0.7 percent SAAR	Q2 = +2.2% SAAR	Up at an annualized rate of 0.7 percent. Though well out of alignment with the underlying trends, the Q3 data illustrate an important but yet often overlooked point, which is the extent to which rapid enough productivity growth allows for wage increases while allowing firms to preserve profit margins. Our forecast anticipates annualized growth in hourly compensation of just over five percent, but the rapid productivity growth our forecast anticipates implies little net growth in labor costs per each unit of output produced. Even if unit labor costs were as well behaved in Q3 as we anticipate, the current trend rate of growth in unit labor costs remains far above the pre-pandemic trend rate, which is one reason growth in labor costs remains a weight on profit margins.
September Factory Orders Thursday, 11/2 Range: -0.1 to 2.9 percent Median: 1.9 percent	Aug = +1.2%	Up by 2.9 percent, mainly reflecting the surge in durable goods orders but also some price effects pushing orders for nondurable goods higher.
October ISM Non-Manufacturing Index Friday, 11/3 Range: 51.5 to 54.3 percent Median: 53.0 percent	Sep = 53.6%	Up to 54.3 percent. Though the pace has slowed a bit, the services sector continues to expand, and the expansion remains broadly based across industry groups. Throw in what will be favorable seasonal adjustment across the key components, and the result should be an increase in the headline index for October. Orders growth remains broadly based and firms continue to add to inventories, while input price pressures have yet to show signs of giving way. These are amongst the key metrics to watch in the months ahead for signs that the expansion in the services sector is tiring.
October Nonfarm Employment Friday, 11/3 Range: 140,000 to 235,000 jobs Median: 190,000 jobs	Sep = +336,000 jobs	Up by 187,000 jobs, with private sector payrolls up by 158,000 jobs and public sector payrolls up by 29,000 jobs. We've routinely noted our lack of confidence in the labor market data, which are plagued by low survey response rates and the same seasonal adjustment noise apparent in a wide swath of the economic data since the onset of the pandemic. Both of those issues left their mark on the September employment report, which is why we heavily discounted the "blowout" job growth number. We will note that we're entering into the time of the year in which seasonal adjustment will insult, not flatter, the headline numbers on many of the economic data releases. As for the October data, between those workers out on strike and as such not counted as employed and those laid off in second-round effects, the UAW strike should knock between 20,000 and 30,000 jobs off of total nonfarm employment. At the same time, however, payrolls in the information services industry group will get a boost from the strike by the Writers Guild of America having been settled ahead of the October survey period. Effects of the labor strikes notwithstanding, through all of the noise in the data it seems clear to us that the trend rate of job growth has slowed over recent months and we expect it to slow further in the months ahead, putting upward pressure on the unemployment rate. To our point about seasonal adjustment, October marks the start of holiday season hiring in retail trade and warehousing/distribution, and while October hiring is no match for that seen in November and December, anything short of the "typical" October increases in hiring in the not seasonally adjusted data will be a drag on the seasonally adjusted data. Any such effects will be much more pronounced in the data for November and December.
October Manufacturing Employment Friday, 11/3 Range: -30,000 to 10,000 jobs Median: -8,000 jobs	Sep = +17,000 jobs	Down by 26,000 jobs.
October Average Weekly Hours Friday, 11/3 Range: 34.3 to 34.4 hours Median: 34.4 hours	Sep = 34.4 hours	Down to 34.3 hours, with the effects of the UAW strike weighing on hours worked in the manufacturing sector. We may be wrong on this point, but our focus will be squarely on the industry level splits to look for signs of flagging demand for labor.
October Average Hourly Earnings Friday, 11/3 Range: 0.1 to 0.4 percent Median: 0.3 percent	Sep = +0.2%	Up by 0.2 percent, for a year-on-year increase of 3.9 percent. Our calls on job growth, hours worked, and hourly earnings would leave aggregate private sector wage and salary earnings flat, yielding a year-on-year increase of 4.9 percent.
October Unemployment Rate Friday, 11/3 Range: 3.7 to 3.9 percent Median: 3.8 percent	Sep = 3.8%	Up to 3.9 percent. Note that striking workers are still counted as employed in the household survey and, as such, have no impact on the jobless rate. We do, however, look for slowing job growth to push the unemployment rate higher.

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