# ECONOMIC PREVIEW

REGIONS

Week of December 4, 2023

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint**<br>*(After the December 12-13 FOMC meeting):*<br>Target Range Mid-point: 5.375 to 5.375 percent<br>Median Target Range Mid-point: 5.375 percent | Range:<br>5.25% to 5.50%<br>Midpoint:<br>5.375% | Tread carefully around the initial estimate of November job growth (see Page 2). Aside from the effects of the UAW strike and potential seasonal adjustment noise, there is a more significant reason to be skeptical of the headline November job growth number. Thus far in 2023, monthly job growth has consistently proven to be slower and less broadly based than initially reported. As we have routinely pointed out, initial response rates to the BLS's establishment survey have been notably low for quite some time, lessening the reliability of the initial estimates of nonfarm employment, hours, and earnings in any given month. This should be, but for many doesn't seem to be, a caution against drawing sweeping conclusions regarding the state of the labor market, the health of the broader economy, or the path of monetary policy on the basis of the headline job growth number in any given month. |
| **October Factory Orders** Monday, 12/4<br>Range: -3.9 to -2.0 percent<br>Median: -2.8 percent | Sep = +2.8% | <u>Down</u> by 3.1 percent. Durable goods orders were dragged down by a steep decline in orders for civilian aircraft, but the more relevant story is the pronounced softening in orders for core capital goods. Core capital goods orders are a precursor of business investment in equipment and software as measured in the GDP data which, in real terms, has declined in three of the past four quarters, including an annualized decline of 3.5 percent in Q3. That core capital goods orders have declined in four of the past five months suggests real business investment in equipment and machinery will remain soft well into 2024. |
| **November ISM Non-Manufacturing Index** Tuesday, 12/5<br>Range: 50.8 to 53.5 percent<br>Median: 52.5 percent | Oct = 51.8% | <u>Down</u> to 51.6 percent. The ISM's October survey suggested a slowing pace of expansion in the broad services sector, and we expect their November survey to show the same. Thus far, the majority of industry groups included in the survey continue to report growth and rising orders, but with the overall pace of growth slowing the breadth of the expansion in the survey sector becomes an increasingly important indicator. One thing that stood out in the October survey was the collapse in orders from abroad, with the index of new export orders posting the fourth largest decline on record. While not all firms in the ISM's survey do business globally, this is an indication that the weak global backdrop that has for some time now been a drag on U.S. manufacturers is beginning to weigh on the services sector as well. Also worth noting is that, on net, firms see current inventory levels as being too high relative to overall levels of activity, such that if new orders begin to soften and order backlogs begin to thin out, firms may feel compelled to cut production and, in turn, pare down total labor input, whether in the form of hours worked or head counts. Thus far, firms in the services sector are seeing no relief on non-labor input prices, but easing price pressures would be a sign of further slowing in the expansion in the services sector. |
| **October Trade Balance** Wednesday, 12/6<br>Range: -\$67.0 to -\$59.5 billion<br>Median: -\$64.2 billion | Sep = -\$61.5 billion | <u>Widening</u> to -\$64.2 billion. We know from the advance data that U.S. exports of goods declined in October, an abrupt end to the string of sizable advances seen over the prior three months. While part of this decline reflects the impact of the UAW strike, as exports of motor vehicles slipped, that should be reversed in the November data. We'll be watching the data on imports of consumer goods excluding food and motor vehicles, which in August and September underperformed seasonal norms, suggesting retailers went into this year's holiday shopping season with not so great expectations of holiday season sales. |
| **Q3 Nonfarm Labor Productivity: 2nd est.** Wednesday, 12/6<br>Range: 4.2 to 5.1 percent<br>Median: 4.9 percent SAAR | Q3: 1st est. = +4.7% SAAR | <u>Up</u> at an annualized rate of 5.1 percent. The revised GDP data show real nonfarm business output grew at an annual rate of 6.1 percent in Q3, faster than the initial estimate of 5.9 percent growth. At the same time, Q3 growth in aggregate hours worked in the nonfarm business sector was revised lower subsequent to the initial estimate of Q3 productivity growth. This combination should yield a faster pace of productivity growth than initially reported. Even if our forecast is on or near the mark, however, that still leaves a weak trend rate of productivity growth, which remains a drag on the economy's long-term trend rate of noninflationary growth. |
| **Q3 Unit Labor Costs: 2nd estimate** Wednesday, 12/6<br>Range: -1.2 to 1.0 percent<br>Median: -0.9 percent SAAR | Q3: 1st est. = -0.8% SAAR | <u>Down</u> at an annualized rate of 1.2 percent. If we are correct in expecting an upward revision to Q3 productivity growth, the counterpart would be a more pronounced decline in unit labor costs (labor costs per unit of output produced). That said, a weak trend rate of productivity growth leaves the trend rate of growth in unit labor costs higher than it otherwise would be, and that trend rate of growth remains well above the pre-pandemic trend rate. |

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| **November Nonfarm Employment**<br>Range: 100,000 to 230,000 jobs<br>Median: 190,000 jobs | Friday, 12/8 | Oct = +150,000 jobs | Up by 177,000 jobs, with private sector payrolls up by 141,000 jobs and public sector payrolls up by 36,000 jobs. While the UAW strike took roughly 34,000 jobs off October job growth, those jobs will be added back in the November data with the strike having been settled. While it may seem that, after accounting for that boost, our forecast anticipates a middling increase in private sector payrolls, we'll note that we expect seasonal adjustment to make November job growth seem weaker than will have actually been the case. As we discussed in the November edition of our *Monthly Economic Outlook*, while holiday season hiring in retail trade and warehousing and distribution services typically runs from October through December, the bulk of that hiring takes place in November, well over half of the three-month total in any given year (based on the not seasonally adjusted data). We expect November hiring to be weaker than normal this year, and if we are correct on this point, smaller than normal increases in not seasonally adjusted payrolls in these segments will be punished, perhaps severely, by seasonal adjustment. We saw this in the October data, with the seasonally adjusted data showing retail trade payrolls rising by just 700 jobs and combined warehousing/courier and messenger payrolls falling by 8,600 jobs while the unadjusted data show increases of 148,000 jobs and 60,400 jobs, respectively. One reason we expect fairly lackluster holiday season hiring in these areas is that both average weekly hours worked and – despite payrolls being higher – aggregate hours worked are significantly below where they were a year ago at this time. This gives firms ample room to add hours amongst current workers, and to the extent they do so it will hold down the number of additional workers they take on.<br><br>Any such effects will be easy enough to see and to account for, at least for anyone taking the time to look at the not seasonally adjusted data. More fundamentally, there is growing evidence of further cooling in the demand for labor which we think will have weighed on November job growth. For instance, hours worked have been declining across several industry groups while job growth has become less broadly based. Beneath what remains a considerable volume of noise in the data, it is clear the trend rate of job growth continues to slow, but it is important to note that this slowdown has thus far been solely a function of a diminished rate of hiring, as opposed to a rising rate of layoffs. Should that pattern change, it would be a most worrisome sign for the broader economy. |
| **November Manufacturing Employment**<br>Range: -20,000 to 40,000 jobs<br>Median: 33,000 jobs | Friday, 12/8 | Oct = -35,000 jobs | Up by 31,000 jobs. While the return of UAW workers and others impacted by the strike will bolster November manufacturing payrolls, beneath these adjustments we expect to see a generally weak profile of factory sector employment. Though the two do not always align, the bleak details of the November ISM Manufacturing Index suggest the monthly employment reports could show contracting manufacturing payrolls in the months ahead. |
| **November Average Weekly Hours**<br>Range: 34.3 to 34.4 hours<br>Median: 34.3 hours | Friday, 12/8 | Oct = 34.3 hours | Up to 34.4 hours. The resolution of the UAW strike should contribute to average weekly hours, and if our premise that firms in retail trade and warehousing and delivery services will have worked their employees more intensively as a substitute for at least some seasonal hiring, that should also bolster the overall average. The overall trend in aggregate hours worked, however, remains somewhat weak, which is consistent with the outlook for a slowing pace of economic activity. |
| **November Average Hourly Earnings**<br>Range: 0.2 to 0.4 percent<br>Median: 0.3 percent | Friday, 12/8 | Oct = +0.2% | Up by 0.3 percent, for a year-on-year increase of 4.0 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 00.7 percent increase in aggregate private sector wage and salary earnings, leaving them up by 5.4 percent year-on-year. |
| **November Unemployment Rate**<br>Range: 3.8 to 4.0 percent<br>Median: 3.9 percent | Friday, 12/8 | Oct = 3.9% | Down to 3.8 percent. |