ECONOMIC PREVIEW

REGIONS

Week of January 1, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 30-31 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%	Wednesday brings the release of the minutes of the December FOMC meeting. Given the subsequent pushback from many FOMC members, we think it unlikely that the tone of the minutes will be consistent with how many market participants interpreted the updated dot plot and Chair Powell's post-meeting press conference.
December ISM Manufacturing Index Tuesday, 1/2 Range: 45.0 to 48.1 percent Median: 47.2 percent	Nov = 46.7%	Up to 47.0 percent, which would mark a fourteenth straight month of contraction in the manufacturing sector. The regional manufacturing surveys for December were pretty bleak and were it not for generous December seasonal adjustment we'd expect a decline in the ISM's headline index. The ISM data show new orders contracting for sixteen straight months – a streak we expect will have been extended in December – while order backlogs have been whittled down, foreign demand continues to contract, and customer inventories have been right-sized. All of this suggests a rocky path for employment and output in the factory sector. To that point, in the past two monthly releases, ISM has made note of firms more aggressively using layoffs to control head counts, as opposed to hiring freezes and attrition. That is in stark contrast to the early months of 2023, when firms indicated that they were holding on to workers even though demand was softening as they expected demand to rebound later in the year. That rebound will come, but likely not any time soon based on the long-running declines in domestic and foreign orders, hence firms resorting to laying off workers. This should act as a cautionary tale for the broader economy, as we and many others believe firms to be engaging in labor hoarding. Labor hoarding today only makes sense when you think tomorrow will look brighter but, absent any signs of light, firms will ultimately begin to let workers go. We're not saying the broader economy is at that point, but rather just suggesting that what we're seeing starting to play out in the manufacturing sector cannot be ruled out elsewhere.
November Construction Spending Tuesday, 1/2 Range: -0.1 to 1.3 percent Median: 0.5 percent	Oct = +0.6%	Up by 0.7 percent.
December Nonfarm Employment Friday, 1/5 Range: 80,000 to 200,000 jobs Median: 170,000 jobs	Nov = +199,000 jobs	Up by 133,000 jobs, with private sector payrolls up by 109,000 jobs and public sector payrolls up by 24,000 jobs. For the first time in a few months, the data on nonfarm payrolls won't be impacted by labor strikes, but that doesn't necessarily mean the December report will be issue-free. Low response rates to the BLS's monthly establishment survey have been an issue since the onset of pandemic and continue to diminish the reliability of the initial estimate of job growth in any given month. To that point, the initial estimate of private sector job growth in every month of 2023 through September was marked down between the first and third estimates, with an average downward revision of roughly 55,000 jobs. The December report will bring the third estimate of October job growth, and we fully expect this streak to remain intact. Moreover, job growth has also consistently been shown to have been less broadly based across the private sector than was initially reported, and the narrowing base of job growth remains a concern to us. To that point, through November the health care and social services industry group accounted for over forty-five percent of private sector job growth in 2023, more than double its 2022 share. We also expect the December data to be plagued by seasonal adjustment noise. One source could be less seasonal hiring in warehousing and delivery services and retail trade than typically seen in the month of December. This issue was present in the November data, and we expect it will also be present, albeit to a lesser degree, in the December data. If we are correct on this point, it will hold down job growth on a seasonally adjusted basis. On the flip side, however, seasonal adjustment will likely once again flatter measured job growth in the construction and the leisure and hospitality services industry groups. Not to get in the way of an over-the-top hot take or a dramatic headline, we'd strongly suggest reserving judgment on the December employment report until exploring the not seasonally adjusted data. Finally, also watch the data on hours worked. The trend in aggregate private sector hours worked weakened markedly over the course of 2023, another manifestation of softening demand for labor. Our forecast of private sector job growth and average weekly hours (see Page 2) would have aggregate hours worked contracting in December and up only marginally for Q4 as a whole.

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

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Indicator/Action Economics Survey:	Last Actual:	Regions' View:
December Manufacturing Employment Friday, 1/5 Range: -2,000 to 8,000 jobs Median: 5,000 jobs	Nov = +28,000 jobs	Down by 2,000 jobs.
December Average Weekly Hours Friday, 1/5 Range: 34.3 to 34.4 hours Median: 34.4 hours	Nov = 34.4 hours	Down to 34.3 hours.
December Average Hourly Earnings Friday, 1/5 Range: 0.1 to 0.4 percent Median: 0.3 percent	Nov = +0.4%	Up by 0.3 percent, for a year-on-year increase of 3.9 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.1 percent increase in aggregate private sector wage and salary earnings, leaving them up by 5.1 percent year-on-year.
December Unemployment Rate Friday, 1/5 Range: 3.6 to 3.9 percent Median: 3.8 percent	Nov = 3.7%	Up to 3.8 percent. The December data will incorporate the annual revisions to the prior five years of seasonally adjusted data from the household survey. The revisions typically only yield modest changes to prior estimates of the unemployment rate without changing the overall tone of the data. That said, it will bear watching for whether the revised data show any meaningful difference in labor force participation
November Factory Orders Friday, 1/5 Range: 0.8 to 5.3 percent Median: 2.2 percent	Oct = -3.6%	Up by 1.6 percent. While the advance data show durable goods orders jumped by 5.4 percent in November, that gain was driven by orders for transportation equipment, specifically, orders for motor vehicles and parts (reflecting the settlement of the UAW strike) and civilian aircraft. Not included in the advance data are orders for nondurable goods, which we expect to have fallen sharply in November, thus negating much of the jump in durable goods orders. While the advance data did show a sizable jump in core capital goods orders, a precursor of business investment in equipment and machinery in the GDP data, that November jump was watered down by downward revisions to orders over the prior several months showing larger declines than had been reported. The net result here is that core capital goods orders remain on a weak trajectory, which we expect to be reflected in the GDP data over the first half of 2024.
December ISM Non-Manufacturing Index Friday, 1/5 Range: 50.7 to 53.1 percent Median: 52.5 percent	Nov = 52.7%	Down to 52.4 percent, indicating continued expansion in the broad services sector. Pay particular attention to the new orders index, including the breadth of orders growth across industry groups, for any early signs that the expansion in the services sector is at risk. Additionally, to the extent the expansion in the services sector is slowing, that should ultimately be reflected in easing pressures on input prices as relayed by the prices paid index. While the ISM's gauge has shown some moderation, prices for non-labor inputs continue to rise, with increases still notably broad based across industry groups.

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