ECONOMIC PREVIEW

REGIONS

Week of January 29, 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%	A busy week for economic data releases brings key reads on labor costs, labor productivity, and job growth. As for the latter, the January employment report (see Pages Two and Three) incorporates the annual benchmark revisions to the BLS's establishment survey which may alter perceptions of labor market conditions given what will be a sizable markdown in the level of nonfarm employment as of the new reference month. The FOMC meets against this backdrop, a meeting which will be about laying the groundwork for policy changes rather than about actual policy changes. The Committee's post-meeting statement will strike the reference to "any additional policy firming" and replace it with a reference to "any future policy adjustments," marking the end of the Committee's tightening bias. Chair Powell's Post meeting press conference will focus on how the Committee is thinking about funds rate cuts this year, and while he will obviously avoid being pinned down on a specific start date, Chair Powell will shed some light on the conditions that would warrant rate cuts and govern the pace of those cuts. Though it is far too soon for any specifics, Chair Powell will likely acknowledge the start of discussions around the ultimate tapering of the rate at which the Fed balance sheet is being run down. One question that will likely come up is the extent to which recent increases in global shipping rates and crude oil prices may be impacting the FOMC's assessment of the risks to its inflation forecasts, which in turn would impact how the Committee is thinking about funds rate cuts.
January Consumer Confidence Tuesday, 1/30 Range: 105.6 to 120.0 Median: 114.0	Dec = 110.7	Up to 117.4, building on the increases seen over the prior two months. Other surveys have shown consumers feeling more upbeat about overall conditions and their own financial conditions as inflation expectations ease. While we expect the Conference Board's survey to show similar results, one caveat is that the Conference Board's index is more heavily weighted to labor market conditions and has shown consumers' assessments of labor market conditions have dimmed somewhat over recent months, which could pose some downside risk to our forecast. Either way, even with recent improvement, measures of consumer sentiment/confidence remain far below levels seen in the years leading up to the pandemic, which could reflect the lingering effects of a prolonged period of elevated inflation or the experiences of the past few years leaving consumers entrenched in "waiting for the other/another shoe to drop" mode.
Q4 2023 Employment Cost Index Wednesday, 1/31 Range: 0.8 to 1.2 percent Median: 1.0 percent	Q3 = +1.1%	Up by 0.9 percent, with the wages component up by 1.0 percent and the benefits component up by 0.9 percent. Our forecast would leave the total ECI up 4.3 percent year-on-year, with the wages component up 4.3 percent and the benefits component up 4.1 percent. The ECI is generally seen as the most reliable gauge of changes in labor costs, as it measures changes in total labor costs for the same jobs over time and is not prone to shifts in the mix of jobs that can, and often do, skew the average hourly earnings metric in the monthly employment reports. That it comes on only a quarterly, rather than monthly, frequency often leads to the ECI being overlooked in discussions of labor costs, though the FOMC attaches considerable weight to it. The Q4 ECI will show wage growth moderating further but still running ahead of the 3.5 percent pace – 2.0 percent inflation and trend productivity growth of around 1.5 percent – the FOMC would be comfortable with. One reason to expect wage growth to moderate further is diminishing labor market turnover, with the quits rate having fallen back in line with pre-pandemic norms, which is relevant in that job switchers tend to see larger pay increases than do job stayers. We'll be watching Tuesday's release of the December JOLTS data for signs of further moderation in the quits rate.
Q4 2023 Nonfarm Labor Productivity Thursday, 2/1 Range: 1.1 to 3.0 percent Median: 2.3 percent SAAR	Q3 = +5.2% SAAR	Up at an annualized rate of 2.8 percent. Real output in the nonfarm business sector grew at an annual rate of 3.7 percent in Q4. At the same time, aggregate private sector hours worked grew at an annual rate of 0.7 percent and hours worked amongst the self-employed grew at an annual rate of 4.7 percent, though these are not the only components that go into the measure of hours worked in the productivity data, adding some uncertainty to our forecast. Either way, the pace of productivity growth picked up smartly over the final three quarters of 2023, part of the marked improvement on the supply side of the economy that we think was the most underappreciated story line of the economy last year. That said, we continue to think that sustained faster productivity growth is the only path back to inflation returning to the FOMC's 2.0 percent target and staying there on a sustained basis.

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

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Q4 2023 Unit Labor Costs Thursday, 2/1 Range: 0.0 to 3.1 percent Median: 1.5 percent SAAR	Q3 = -1.2% SAAR	Up at an annualized rate of 0.3 percent. Productivity growth slowing from the blistering pace seen in Q3 will put some upward pressure on unit labor costs (the labor cost of each unit of output produced). At the same time, however, our forecast anticipates the data will show some moderation in hourly compensation costs, which will blunt the increase in unit labor costs.
December Construction Spending Thursday, 2/1 Range: 0.0 to 0.8 percent Median: 0.5 percent	Nov = +0.4%	Up by 0.5 percent. The pace of housing unit completions rose sharply in December, but weakness in some components of commercial construction will temper the increase in total construction outlays.
January ISM Manufacturing Index Thursday, 2/1 Range: 43.0 to 48.1 percent Median: 47.0 percent	Dec = 47.4%	Up to 47.9 percent. It may be a new year, but will it be the same old story for the manufacturing sector? At least initially, that will be the case, as our forecast would mark a fifteenth straight month of contraction, with new orders contracting for a seventeenth straight month. Recall that in December primary metals was the only industry group out of the eighteen included in the ISM's survey to report growth, the fewest in any month since April 2009. Increasing breadth will be the fist step toward expansion in the broader manufacturing sector, which we still see as being some time away. It could be that renewed concerns about the integrity of global supply chains leads to cautionary inventory building, which could be a source of support for manufacturing output and employment over 1H 2024. We continue to think that lower interest rates will provide support for cap ex over the second half of the year, which is also when we expect foreign demand to begin to pick up, at least moderately. If we're correct, the back half of 2024 should look, and feel, better for domestic manufacturers, but the first half of the year is likely to remain somewhat rocky.
January Nonfarm Employment Friday, 2/2 Range: 120,000 to 285,000 jobs Median: 180,000 jobs	Dec = +216,000 jobs	Up by 233,000 jobs, with private sector payrolls up by 199,000 jobs and public sector payrolls up by 34,000 jobs. The January data will, as in each year, incorporate the results of the annual benchmark revisions to the establishment survey data, impacting nonfarm employment, hours, and earnings, in which the establishment survey is benchmarked to the universe of payroll tax returns as of the prior March. The BLS's initial estimate shows that as of March 2023, the new reference month, the level of nonfarm employment will be roughly 300,000 jobs lower than has been reported, with transportation and warehousing services accounting for almost half of that downward revision. While the monthly job growth numbers will change, the broader trends in monthly job growth will not likely be significantly different than what has thus far been reported. Recall that the underlying trend rate of job growth slowed over the course of 2023, and we expect the revised data to show that same slowing. Also recall that the initial estimate of private sector job growth in each month of 2023 was ultimately revised lower, and significantly so, with notably low response rates to the BLS's establishment survey diminishing the reliability of the initial estimates of job growth. At the same time, job growth also became less broadly based across private sector industry groups as 2023 wore on. Those are all patterns we could live without in 2024. As for the January data, we see the potential for job growth to be pushed higher by seasonal adjustment, with construction, leisure and hospitality services, warehousing and delivery services, and retail trade the industry groups in which measured job growth could be overstated. In the latter two cases, less seasonal hiring than typical over the final months of 2023 means fewer seasonal layoffs than typically seen in the month of January, meaning seasonal adjustment could over-compensate. While harsh winter weather over most of the country could be expected to wreak havoc on employment in construction and some segments of transportation/distribution, we'll note the January survey period fell earlier in the month than is typical, which could blunt any weather-related distortions in the January data, though this is obviously a source of uncertainty in our forecast. Regardless of the headline January job growth number, we'll be watching the trends in the pace and breadth of job growth and in aggregate hours worked as the most meaningful indicators of the fate of the labor market in 2024. While the demand for labor has clearly cooled, that has yet to manifest in significant and broadly based increases in layoffs. Our 2024 outlook is contingent upon that remaining the case.

ECONOMIC PREVIEW

REGIONS

Week of January 29, 2024

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
January Manufacturing Employment Range: 0 to 5,000 jobs Median: 3,000 jobs	Friday, 2/2	Dec = +6,000 jobs	Up by 2,000 jobs.
January Average Weekly Hours Range: 34.2 to 34.4 hours Median: 34.3 hours	Friday, 2/2	Dec = 34.3 hours	Up to 34.4 hours.
January Average Hourly Earnings Range: 0.2 to 0.4 percent Median: 0.3 percent	Friday, 2/2	Dec = +0.4%	Up by 0.3 percent, for a year-on-year increase of 4.1 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.8 percent increase in aggregate private sector wage and salary earnings, leaving them up by 5.0 percent year-on-year.
January Unemployment Rate Range: 3.6 to 3.9 percent Median: 3.7 percent	Friday, 2/2	Dec = 3.7%	Unchanged at 3.7 percent, though that comes with little confidence. As with January of each year, this estimate will incorporate new population controls in the household survey, meaning the levels of the labor force and household employment are not comparable to those reported over the prior year; specifically, December 2023-Jaunary 2024 reads will not be comparable. As such, we won't be surprised at whatever the January unemployment rate prints at.
December Factory Orders Range: -0.4 to 1.1 percent Median: 0.2 percent	Friday, 2/2	Oct = +2.6%	Down by 0.2 percent.

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