ECONOMIC PREVIEW

REGIONS

Week of February 5, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 19-20 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%	Strong, just not this strong. That'd be our main takeaway from the details of the January employment report, which showed total nonfarm payrolls rose by 353,000 jobs in January, with private sector payrolls up by 317,000 jobs. As equally eye-catching was the reported 0.6 percent increase in average hourly earnings, the largest such increase since March 2022, leaving them up 4.5 percent year-on-year. As these numbers hit the wires, the immediate reactions centered around what they may mean for the FOMC, with many immediately ruling out not only a Fed funds rate cut in March, the odds of which were already low prior to the release of the employment report, but a cut in May as well. To our opening point, however, the details of the January employment report suggest more tempered response to the data. For some time now, low response rates to the BLS's establishment survey have called into question the reliability of the initial estimate of job growth in any given month. That was again the case in January, with the initial response rate the lowest January rate since 2002. Additionally, there is reason to believe the headline job growth number was meaningfully boosted by seasonal adjustment. While not seasonally adjusted employment falls each January, this year's decline in each was second to only 1984 as the smallest January decline on record in the data, which go back to 1948. We can point to specific industry groups, such as construction, retail trade, transportation and warehousing services, and courier and delivery services, as having posted smaller than normal January declines in employment. This in part is accounted for by less holiday season hiring in late-2023 than is typical, meaning fewer seasonal layoffs this January. Residual seasonality has become a common, and most unwelcome, feature of the January employment data over the past several years. Weather effects, reflecting unusually harsh winter weather across much of the nation, also cloud the January employment report. At just over 550,000, the number of people not at work due to bad weather is the most in any January since 2011, while the more than 1.8 million people who normally work full-time but worked part-time due to bad weather is the most of any January since 2018. While these metrics come from the household survey, similar effects are likely present in the establishment survey data, contributing to the sharp declines in hours worked in construction, transportation/warehousing services, and leisure and hospitality services. Overall, the average length of the private sector workweek fell from 34.3 hours in December to 34.1 hours in January. That surely plays into the reported 0.6 percent increase in average hourly earnings, which is a residual series calculated by BLS rather than a figure reported by companies responding to the establishment survey. BLS uses reported payrolls, employment counts, and hours worked counts to derive average hourly earnings, and the steep decline in hours worked biased the estimate of average hourly earnings higher, leaving it at odds with other measures of changes in labor costs, particularly the Employment Cost Index. To be sure, we are by no means suggesting that either the labor market or the broader economy are on the verge of rolling over. Indeed, both have time and again surprised us, and many others, to the upside. We are, however, suggesting the labor market is not as robust as implied by the January employment report, and that it would be unwise to make any strong inferences as to how this report may impact the FOMC's thinking about Fed funds rate cuts in 2024. Sure, the March FOMC meeting is probably no longer in play. That said, it's a long way until May.
January ISM Non-Manufacturing Index Monday, 2/5 Range: 48.7 to 53.2 percent Median: 52.0 percent	Dec = 50.5%	<u>Up</u> to 53.1 percent. An odd dip below 50.0 percent in the employment index helped drag the headline index down in December, but we expect reversals on both counts in the January data, with the ISM's survey showing the broad services sector continues to expand at a moderate pace. One element of the services survey that we continue to watch closely is the prices paid index. The prices paid component remains firmly above 50.0 percent, indicating continued increases in input costs. Core services remain the most persistent source of inflation pressures, and the ISM's survey suggests that will remain the case.
December Trade Balance Wednesday, 2/7 Range: -\$64.0 to -\$60.4 billion Median: -\$62.2 billion	Nov = -\$63.2 billion	<u>Narrowing</u> to -\$60.8 billion.

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