

# ECONOMIC PREVIEW



Week of March 4, 2024

## Indicator/Action

### Economics Survey:

## Last

### Actual:

### Regions' View:

<p><b>Fed Funds Rate: Target Range Midpoint</b>  <i>(After the March 19-20 FOMC meeting):</i>                  Target Range Mid-point: 5.375 to 5.375 percent                  Median Target Range Mid-point: 5.375 percent</p>	<p>Range: 5.25% to 5.50%                  Midpoint: 5.375%</p>	<p>While it was easy to pick through the January reports on inflation and make a case that the January data were more noise than signal, that argument will be harder to cling to if the February data don't support it. As it is, crude oil prices, retail gasoline prices, and the prices paid index in the ISM's February survey of the factory sector are telling a less benign, story. The February ISM Non-Manufacturing survey (see below) will likely reinforce the premise that inflation pressures could remain more persistent than had seemed likely coming into 2024.</p>
<p><b>January Factory Orders</b> Tuesday, 3/5                  Range: -4.0 to -1.6 percent                  Median: -2.9 percent</p>	<p>Dec = +0.2%</p>	<p><u>Down</u> by 2.7 percent. A plunge in civilian aircraft orders will be a significant drag on top-line orders. While orders for core capital goods (nondefense capital goods excluding aircraft &amp; parts) should notch a modest gain, the series has been drifting somewhat aimlessly within a fairly narrow range for some time now. As core capital goods orders are an indicator of the GDP data on business investment in machinery and equipment, albeit with a lengthy lag, this aimless wandering suggests we're some time away from seeing spending on capital goods make a meaningful contribution to real GDP growth on a sustained basis. While we expect this will at some point be the case, when that will be the case is a different question.</p>
<p><b>February ISM Non-Manufacturing Index</b> Tuesday, 3/5                  Range: 51.0 to 55.2 percent                  Median: 53.0 percent</p>	<p>Jan = 53.4%</p>	<p><u>Up</u> to 54.0 percent. While the headline index will indicate continued expansion, it is worth noting that the breadth of the expansion across the services sector has narrowed over the past few months, making this something to watch in the February survey. While it does not enter into the calculation of the headline index, we'll be most interested in the prices paid index. With the exception of March 2020, the prices paid index has been above 50.0 percent in each of the past 80 months, indicating rising prices for non-labor inputs across the services sector, but January nonetheless saw one of the largest monthly increases in the prices paid index in the life of the data. Whether that was seasonal noise, not uncommon in January data, or something more substantive remains to be seen, but it bears noting that the jump seen in the prices paid index in the ISM's January manufacturing survey stuck in the February survey. That could signal renewed upward pressure on prices for capital and consumer goods, which would amplify price pressures emanating from the services sector.</p>
<p><b>January Trade Balance</b> Thursday, 3/7                  Range: -\$65.3 to -\$61.0 billion                  Median: -\$63.5 billion</p>	<p>Dec = -\$62.2 billion</p>	<p><u>Widening</u> to -\$64.1 billion.</p>
<p><b>Q4 2023 Nonfarm Labor Productivity: 2<sup>nd</sup> est.</b> Thurs., 3/7                  Range: 2.5 to 3.2 percent                  Median: 3.1 percent SAAR</p>	<p>Q4: 1<sup>st</sup> est. = +3.2% SAAR</p>	<p><u>Up</u> at an annualized rate of 3.1 percent. Revised data show real output in the nonfarm business sector grew at an annual rate of 3.5 percent in Q4, down from the initial estimate of 3.7 percent. While growth in aggregate private sector hours worked was also marked down from the initial estimate, the downward revision to output growth will be the dominant force here, resulting in a modest downward revision to productivity growth relative to the initial estimate. That said, Q4 growth will still be far above the run-rate over the past several quarters, and the key question is whether, or to what extent, this above-trend productivity growth can be sustained.</p>
<p><b>Q4 2023 Unit Labor Costs: 2<sup>nd</sup> estimate</b> Thursday, 3/7                  Range: 0.5 to 1.2 percent                  Median: 0.7 percent SAAR</p>	<p>Q4: 1<sup>st</sup> est. = +0.5% SAAR</p>	<p><u>Up</u> at an annualized rate of 0.6 percent.</p>
<p><b>February Nonfarm Employment</b> Friday, 3/8                  Range: 130,000 to 260,000 jobs                  Median: 200,000 jobs</p>	<p>Jan = +353,000 jobs</p>	<p><u>Up</u> by 249,000 jobs, with private sector payrolls <u>up</u> by 191,000 jobs and public sector payrolls <u>up</u> by 58,000 jobs. At the time of its release, we characterized the January employment report as "messy," as it was beset by a notably low response rate to the establishment survey, seasonal adjustment noise, and the effects of unusually harsh winter weather. As such, we considered the January reads on job growth, hours worked, and hourly earnings to be highly suspect. There will almost surely be some degree of payback in the February data, and odds are that whatever the February establishment survey show will be called into question by a low survey response rate. We'll also be on watch for seasonal adjustment noise, particularly in retail trade and leisure and hospitality services. Recall that the January employment report was at odds with other indicators of cooling, and less broadly based, demand for labor and moderating wage growth. Through all the noise in the monthly employment reports, we still think these to be the prevailing underlying trends in the labor market.</p>

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### Actual:

### Regions' View:

<b>February Manufacturing Employment</b> Range: 2,000 to 15,000 jobs Median: 10,000 jobs	Friday, 3/8	Jan = +23,000 jobs	<u>Up</u> by 7,000 jobs.
<b>February Average Weekly Hours</b> Range: 34.2 to 34.3 hours Median: 34.3 hours	Friday, 3/8	Jan = 34.1 hours	<u>Up</u> to 34.3 hours. From the household survey, we know that 1.794 million people who normally work full-time worked only part-time in January due to bad weather, while 553,000 people had to miss work altogether due to bad weather, each the most in any January since 1982. That clearly carried into the establishment survey, with a sharp decline in aggregate hours worked. We look for the workweek to have normalized in February, and if we're correct on this point, the increase in hours worked will provide a powerful boost to growth in aggregate wage and salary earnings (see below).
<b>February Average Hourly Earnings</b> Range: -0.1 to 0.3 percent Median: 0.2 percent	Friday, 3/8	Jan = +0.6%	<u>Up</u> by 0.1 percent, for a year-on-year increase of 4.3 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 5.5 percent year-on-year. Much too much was made about the reported 0.6 percent increase in average hourly earnings in January; rather than signaling renewed intensity in wage pressures, that increase was largely a function of the sharp decline in aggregate hours worked. Keep in mind that the average values in the monthly employment reports – average weekly hours, average hourly earnings – are not reported directly by firms but instead are simply derived by BLS taking ratios from the aggregate measures – employee counts, gross payrolls, hours worked – that firms do report directly. Our sense is that the impacts of January's unusually harsh winter weather were more fully captured in the reporting on aggregate hours worked than in the reporting on gross payrolls, which would have biased the average hourly earnings calculation higher. To the extent that hours worked normalized in February, the opposite would have been the case. Either way, aggregate wage and salary earnings are the far more relevant metric to track, from the perspectives of both firms and consumers. Though slowing, growth in aggregate wage and salary earnings continues to easily outpace inflation, as has been the case over this entire period of elevated inflation. This has been a key support for consumer spending, which we expect to remain the case in the months ahead.
<b>February Unemployment Rate</b> Range: 3.6 to 3.8 percent Median: 3.7 percent	Friday, 3/8	Jan = 3.7%	<u>Down</u> to 3.6 percent.

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