ECONOMIC PREVIEW

REGIONS

Week of April 1, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the April 30-May 1 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%	This week brings heavier doses of both economic data and Fedspeak. In addition to Chair Powell's Wednesday appearance at Stanford, a speech followed by Q&A, several other FOMC members will deliver speeches this week. A common theme across all of these appearances, however, will likely be that the FOMC needs to see further evidence of inflation being firmly on a path to their 2.0 percent target rate before thinking it appropriate to begin cutting the Fed funds rate, a message that by now the markets have, however grudgingly, come to accept. The highlight of this week's data docket is Friday's release of the March employment report (see Page 2). Unfortunately, the monthly employment reports for the past several months have been more noise than signal, given the pattern of sizable downward revisions to the initial estimates of private sector job growth in any given month. The root cause of this noise has been notably low initial response rates to the BLS's monthly establishment survey, and we have no reason to think the March report will break this pattern. The household survey data, however, have not been much more reliable, with the reported increase in the unemployment rate in February little more than noise in the data. As such, it's hard to have a great deal of confidence in the labor market data and, in turn, our forecasts of the labor market data.
March ISM Manufacturing Index Monday, 4/1 Range: 46.6 to 49.5 percent Median: 48.3 percent	Feb = 47.8%	Up to 49.2 percent. In each of the past two surveys, the headline index has been out of alignment with the underlying details of the survey, with the headline index outperforming the details in the January survey and underperforming the details in the February survey. Our forecast of the March results would have the two if not on the same page, then at least in the same chapter, showing signs of modest improvement but nonetheless showing a seventeenth straight month of contraction in the factory sector. Rather than just grabbing the index numbers for each of the component parts of the survey, our preferred way of going through the ISM's survey is to sort through the shares of firms and industries reporting increases/decreases, as we think this to be a better way of detecting shifts that are not necessarily reflected in the headline index. For instance, we saw more strength in the new orders in the February survey, when the index was below the 50.0 percent breakeven mark, than we did in the January survey, when the new orders index was above that mark. We look for the March read to be above 50.0 percent with a higher share of firms reporting growth in orders. That said, the employment index is likely to remain below the 50.0 percent breakeven mark as firms continue to strictly manage head counts until they see more evidence of sustained growth in demand. Two components that do not enter into the calculation of the headline index but which both suggest activity in the factory sector gathering pace are the prices paid index, which has showed rising prices for non-labor inputs in each of the past two surveys, and the index of supplier delivery times, which has shown slowing delivery times in each of the past two surveys. While neither has sent an absolutely strong signal, both are at least consistent with the premise that activity in the factory sector is at least beginning to firm up, and we expect the March survey to reinforce this premise.
February Construction Spending Monday, 4/1 Range: -0.1 to 1.2 percent Median: 0.9 percent	Jan = -0.2%	Up by 1.1 percent.
February Factory Orders Tuesday, 4/2 Range: 0.6 to 1.6 percent Median: 1.0 percent	Jan = -3.6%	Up by 1.4 percent.
March ISM Non-Manufacturing Index Wednesday, 4/3 Range: 51.3 to 53.5 percent Median: 52.8 percent	Feb = 52.6%	Up to 53.4 percent, indicating continued steady expansion in the services sector, with growth remaining broadly based across firms and industry groups. The employment index took a surprising tumble in the February survey, dropping below the 50.0 percent breakeven mark, which we expect to be reversed in the March survey. We also look for the new orders index to remain comfortably above that 50.0 percent mark with orders growth remaining broadly based across industry groups.
February Trade Balance Thursday, 4/4 Range: -$70.0 to -$64.0 billion Median: -$67.0 billion	Jan = -$67.4 billion	Widening to -$68.6 billion.

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Indicator/Action Economics Survey:	Last Actual:	Regions' View:
March Nonfarm Employment Friday, 4/5 Range: 150,000 to 250,000 jobs Median: 200,000 jobs	Feb = +275,000 jobs	Up by 186,000 jobs, with private sector payrolls up by 137,000 jobs and public sector payrolls up by 49,000 jobs. While continued robust hiring amongst state and local governments will be a support for the headline job growth number, that is to some extent masking a steadily slowing trend rate of hiring in the private sector, a trend we expect will be reinforced by the March data. That said, we do think that unfriendly seasonal adjustment will weigh on reported private sector job growth, with leisure and hospitality services and construction two industry groups most exposed. The bigger risk to our below-consensus forecast, however, is that yet another notably low response rate to the BLS's establishment survey leads to the headline March job growth number being inflated, only to be revised lower in subsequent months. Think of it as shrinkflation hiding in plain sight. For more than a year now, the initial estimate of private sector job growth has subsequently been revised lower, often significantly so, with December 2023 being the lone exception. We have for some time been noting that low initial response rates have been diminishing the reliability of the initial estimates of job growth, and we'll continue to think so until we see a reason, specifically more normal initial survey response rates, to think otherwise, and the pattern of downward revisions affirms our view. To that point, watch for the net revision to prior estimates of job growth over the past two months. Recall that in the February employment report, prior estimates of job growth in January and December were marked down by a net 167,000 jobs, an unusually large revision. While we don't expect the March report to show such a large revision to prior estimates of job growth in January and February, we have little reason to think the revision won't be to the downside.
March Manufacturing Employment Friday, 4/5 Range: 0 to 10,000 jobs Median: 9,000 jobs	Feb = -4,000 jobs	Up by 3,000 jobs.
March Average Weekly Hours Friday, 4/5 Range: 34.3 to 34.4 hours Median: 34.3 hours	Feb = 34.3 hours	Unchanged at 34.3 hours.
March Average Hourly Earnings Friday, 4/5 Range: 0.2 to 0.4 percent Median: 0.3 percent	Feb = +0.1%	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 0.4 percent increase in aggregate private sector wage and salary earnings, leaving them up by 5.5 percent year-on-year.
March Unemployment Rate Friday, 4/5 Range: 3.7 to 3.9 percent Median: 3.8 percent	Feb = 3.9%	Down to 3.6 percent. We find it somewhat remarkable, though hardly surprising, that rather than looking into what was a rather obvious cause, so many took the reported increase in the unemployment rate in February at face value and used it as the basis for sweeping conclusions about the state of the labor market and the broader economy. The details of the data show employment amongst those aged 16-to-24 fell by 465,000 persons in February, with employment amongst females in this age cohort down by 337,000, more than accounting for the reported decline in household employment of 184,000 persons. To us, this was a greater than normal volume of noise in an inherently noisy data series that said nothing about the labor market or the broader economy. While it is often the case that such a large swing amongst any age cohort in a given month is reversed in the following month, employment amongst the 16-to-24 year-old cohort is reported to have fallen sharply over the past year. So, while we may be wrong to think the jobless rate will fall back to 3.7 percent, it should at least fall, barring a larger than expected increase in the labor force. What we think to be of far more relevance is that participation and employment amongst the key 25-to-54 year-old cohort, the "prime working age" population, have both increased steadily, with the participation rate amongst this cohort above pre-pandemic norms. We do, however, question how much upside remains for participation amongst this cohort, but if we are correct in thinking "not so much," that will alleviate any upward pressure on the unemployment rate stemming from a slowing pace of job growth.

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