ECONOMIC PREVIEW

REGIONS

Week of September 2, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 17-18 FOMC meeting):* Target Range Mid-point: 4.875 to 5.125 percent Median Target Range Mid-point: 5.125 percent	Range: 5.25% to 5.50% Midpoint: 5.375%	The August employment report will help answer the question of whether, or to what extent, the July data were impacted by Hurricane Beryl or instead were evidence of a meaningful deterioration in labor market conditions. We have from the start argued the former was more likely the case than the latter, and this is reflected in our above-consensus forecasts of the August data (see Page 2).
August ISM Manufacturing Index Tuesday, 9/3 Range: 46.0 to 48.5 percent Median: 47.5 percent	Jul = 46.8%	Up to 48.1 percent which would nonetheless leave the headline index below the 50.0 percent break between contraction and expansion for the twenty-first time in the past twenty-two months, including each of the past five months. As if this extended run isn't enough, there is little evidence that a turnaround is within sight, particularly given how tepid new orders have been over the past several months. The new orders index has shown contracting orders over the past several months, and the firm level details for July showed a spike in the percentage of firms reporting lower orders. At the same time, order backlogs have been pared down significantly while roughly two-thirds of firms report their customers' inventory levels are about right. All of this provides little impetus for increased employment or output, meaning the headline index could remain below that 50.0 percent threshold for some time. While some relief on financing costs may help spur capital spending, an uncertain outlook for tax, regulatory, and trade policy is also acting as an impediment.
July Construction Spending Tuesday, 9/3 Range: -0.2 to 0.3 percent Median: 0.1 percent	Jun = -0.3%	Down by 0.2 percent.
July Trade Balance Wednesday, 9/4 Range: -\$81.9 to -\$72.4 billion Median: -\$78.5 billion	Jun = -\$73.1 billion	Widening to -\$81.9 billion. A jump in imports led to a wider deficit in the trade account while the accounting for broadcast rights to the summer Olympics will lead to a spike in services imports, the net result of which will be a sharply wider overall trade deficit. Though going largely overlooked, we think it worth noting that the jump in imports in July reflects rapid growth in imports of capital goods, which ultimately support production in U.S. based plants.
July Factory Orders Wednesday, 9/4 Range: 0.2 to 5.2 percent Median: 4.6 percent	Jun = -3.3%	Up by 4.9 percent, largely reflecting the spike in durable goods orders. That spike, however, was little more than Boeing reporting a jump in new orders in July and reclassifying orders from prior months. The preliminary data show ex-transportation orders were up just 0.1 percent while core capital goods orders slipped by 0.2 percent. As we've noted elsewhere, core capital goods orders have been largely rangebound since the start of 2023 and, to our above point about an uncertain outlook for tax, regulatory, and trade policy, are likely to remain rangebound into early-2025.
Q2 Nonfarm Labor Productivity: Revised Thursday, 9/5 Range: 1.4 to 2.5 percent Median: 2.3 percent SAAR	Q2 (pre.) = +2.3% SAAR	Up at an annualized rate of 2.5 percent. Revised data show real output in the nonfarm business sector grew at an annual rate of 3.5 percent in Q2 rather than 3.3 percent as initially reported. This will be more than enough to offset what we expect will be a modest upward revision to aggregate hours worked, yielding a mild upward revision to the initial estimate of Q2 productivity growth and, in turn, pushing our preferred gauge of the trend rate of productivity growth – the eight-quarter moving average of quarterly changes – even further above it's pre-pandemic pace. As a side note, the sizable downward revision to nonfarm job growth implied by the BLS's annual benchmark revision process suggests productivity growth from Q2 2023 through Q1 2024 was meaningfully faster than has been reported.
Q2 Unit Labor Costs: Revised Thursday, 9/5 Range: 0.6 to 1.5 percent Median: 0.9 percent SAAR	Q2 (pre.) = +0.9% SAAR	Up at an annualized rate of 0.7 percent.
August ISM Non-Manufacturing Index Thursday, 9/5 Range: 49.7 to 52.2 percent Median: 50.9 percent	Jul = 51.4%	Down to 50.3 percent. The firm level details have been notably volatile over recent months, which has been reflected in the headline index, which dipped below the 50.0 percent marker in both April and June. Our sense is that this volatility reflects the broad services sector settling into a slower pace of expansion, particularly given that even in April and June the majority of industry groups reported orders growth. It will be the firm level details on new orders and overall business activity that will tell us whether our assessment is on the mark or if something less benign is weighing on the services sector.

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

ECONOMIC PREVIEW

REGIONS

Week of September 2, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
August Nonfarm Employment Friday, 9/6 Range: 100,000 to 208,000 jobs Median: 165,000 jobs	Jul = +114,000 jobs	Up by 208,000 jobs, with private sector payrolls up by 164,000 jobs and public sector payrolls up by 44,000 jobs. The August employment report will help answer the question of whether, or to what extent, Hurricane Beryl had a discernible effect on the July employment report. We and many others have pointed to seemingly clear signs of a significant impact, including the lowest initial collection rate for the month of July since 1991, the number of people either who either did not work at all or worked only part-time hours due to adverse weather, far and away the highest July counts on record, the jump in the number of people reporting that they were on temporary layoff, and hits to hours worked in construction and mining. Those signals notwithstanding, the BLS's position is that Beryl had no discernible effect on the July data. So, in that sense, our above-forecast of August job growth reflects what we expect will be some degree of payback for the impaired July data, though another possibility is that the initial estimate of July job growth is revised higher. Should either our forecast for August be on or near the mark or the July data get revised higher, we'd look at average job growth over the two months as being the relevant metric. There is, of course, another possibility, which is that the labor market really did weaken to the extent implied by the July employment report and the August report is similarly soft. While we do not think this to be likely, we will not dismiss the possibility out of hand, and if this does prove to be the case, we and many others will have to revisit our assessment of labor market conditions. Then again, it is difficult to have a high degree of confidence in any assessment of labor market conditions made on the basis of the monthly employment reports, which we've come to see as increasingly less reliable, and that applies to both the establishment survey and the household survey. This is a point we've been making for some time, so in that sense the BLS's preliminary estimate of the annual benchmark revision process, suggesting a substantially larger than normal revision, reinforced rather than changed our view on the reliability of the monthly employment reports.
August Manufacturing Employment Friday, 9/6 Range: 0 to 10,000 jobs Median: 4,000 jobs	Jul = +1,000 jobs	Down by 2,000 jobs.
August Average Weekly Hours Friday, 9/6 Range: 34.2 to 34.3 hours Median: 34.3 hours	Jul = 34.2 hours	Up to 34.3 hours. The drop in average weekly hours in July was entirely accounted for by the goods producing industries – construction, mining/natural resources, and manufacturing. While weak industry conditions can account for reduced hours in manufacturing, construction and mining/natural resources are the two industry groups most prone to weather-related disruptions in hours worked, which we point to as one of the discernible effects of Hurricane Beryl. That construction payrolls increased in July would seem to counter the argument that weak industry conditions triggered the decline in average hours. Again, though, the August data will help settle the question, so we'll be watching to see if average weekly hours bounce back.
August Average Hourly Earnings Friday, 9/6 Range: 0.2 to 0.4 percent Median: 0.3 percent	Jul = +0.2%	Up by 0.4 percent, for a year-on-year increase of 3.8 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.
August Unemployment Rate Friday, 9/6 Range: 4.1 to 4.4 percent Median: 4.2 percent	Jul = 4.3%	Down to 4.1 percent. The number of people reporting to be on temporary layoff rose by 249,000 persons in July, the biggest increase since the early days of the pandemic and a number sufficient to fully account for the increase in the unemployment rate. To the extent that reflected the effects of Hurricane Beryl, it is reasonable to expect that spike reversed, at least mostly, in August. If not, then our forecast will be too low. Either way, we've questioned the household survey data given what seem, at least to us, wholly implausible splits across age and gender lines. To that point, there is potential for mischief in the August data. August is the month when younger adults who entered the job market for the summer begin to exit the labor force ahead of the start of the school year. This year saw a below-average number enter the labor force, including the smallest (unadjusted) July increase amongst 16-to-19 year-olds in the life of this series, which goes back to 1948. As such, seasonal adjustment could overcompensate and easily add one-tenth of a point to the unemployment rate, which would say more about noise in the data than about labor market conditions.

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