ECONOMIC PREVIEW

REGIONS

Week of September 30, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 6-7 FOMC meeting):* Target Range Mid-point: 4.375 to 4.625 percent Median Target Range Mid-point: 4.625 percent	Range: 4.75% to 5.00% Midpoint: 4.875%	With the FOMC's focus now squarely on the downside risks to the labor market, the monthly employment reports will carry considerable weight in their deliberations as to the appropriate cadence of looming Fed funds rate cuts. Unfortunately, the signals being sent by the next few monthly employment reports could be somewhat difficult to decipher. Aside from the measurement issues that continue to plague the data from the establishment survey, seasonal adjustment noise could make September job growth look stronger and job growth in October and November, a time of the year when seasonal hiring typically juices job growth, look weaker than will really be the case. Should striking Boeing workers still be out at the end of next week, that will impact the October employment report, which could also be impacted should East and Gulf coast port workers go on strike and the effects of Hurricane Helene. In short, while the next few monthly employment reports may indeed provide useful signals on labor market conditions, interpreting those signals is likely to be quite difficult.
September ISM Manufacturing Index Tuesday, 10/1 Range: 46.8 to 49.2 percent Median: 47.6 percent	Aug = 47.2%	Down to 47.0 percent. The long-running contraction in the factory sector seems more a matter of manufacturing activity being stuck at a fairly low level, as opposed to steadily eroding conditions. That can be seen in the firm level responses, which continue to show the majority of firms reporting no change from one month to the next in metrics such as new orders, employment, and output. That same message is also being sent by the monthly data on core capital goods orders – neither rising steadily nor falling steadily, but instead more or less rangebound since the beginning of 2023. As we've noted, despite some relief on financing costs, uncertainty over the course of regulatory, fiscal, and trade policy is acting as a weight on the factory sector, which will persist into 2025, while striking Boeing workers and a potential port strike loom as further near-term drags.
August Construction Spending Tuesday, 10/1 Range: -0.5 to 0.5 percent Median: 0.2 percent	Jul = -0.3%	Up by 0.4 percent.
August Factory Orders Thursday, 10/3 Range: -1.1 to 0.8 percent Median: 0.1 percent	Jul = +5.0%	Down by 0.3 percent.
September ISM Non-Manufacturing Index Thursday, 10/3 Range: 51.0 to 52.2 percent Median: 51.6 percent	Aug = 51.5%	Down to 51.3 percent, indicating continued moderate expansion in the broad services sector. It is worth noting that neither the manufacturing nor the services survey is showing any let-up from rising costs for non-labor inputs which, with inflation steadily decelerating, could signal gathering pressures on profit margins.
September Nonfarm Employment Friday, 10/4 Range: 70,000 to 220,000 jobs Median: 146,000 jobs	Aug = +142,000 jobs	Up by 206,000 jobs, with private sector payrolls up by 169,000 jobs and public sector payrolls up by 37,000 jobs. To the point made above, with the exception of 2020, when nothing was normal, the last year in which not seasonally adjusted private sector payrolls increased in the month of September was 1997. These September declines, of course, are accounted for by seasonal adjustment. Our sense, however, is that this September will have seen a smaller decline in unadjusted private sector payrolls than is typical for the month, in part reflecting the slowing pace of hiring over the past several months, and if we are correct on this point, seasonal adjustment could flatter the headline job growth number. Not exactly smoke and mirrors, but it does point to the importance of examining the unadjusted data before rushing to any conclusions based solely on the headline job growth number. To that point, a few places to look for potential seasonal adjustment effects will be construction, retail trade, and leisure and hospitality services, all of which we suspect may have seen smaller than typical September declines in not seasonally adjusted payrolls. If so, seasonally adjusted job counts could be biased higher; if not, then our forecast of the increase in seasonally adjusted payrolls in September will be too high. Any such seasonal adjustment issues will be easy enough to identify and account for. More fundamentally, one factor behind the deceleration in job growth seen over recent months is that the pace of job gains in health care, leisure and hospitality services, and government, which teamed up to emerge as the key drivers of overall CONTINUES ON PAGE 2

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Indicator/Action Economics Survey:	Last Actual:	Regions' View:
September Nonfarm Employment Friday, 10/4 Range: 70,000 to 220,000 jobs Median: 146,000 jobs	Aug = +142,000 jobs	CONTINUED FROM PAGE 1: job growth, has slowed. Though this was bound to happen at some point, there have been no other industry groups in which accelerating job growth would help fill this void. It is worth noting that while the one-month hiring diffusion index continues to indicate most industry groups are adding to payrolls, that share has slipped. Moreover, the diffusion index measures the breadth of hiring, not the intensity, which has clearly eased so, in other words, hiring has become both less broadly based and less robust across industry groups. At the same time, however, the weekly data on initial claims for unemployment insurance benefits show the rate at which workers are being laid off remains slightly below the pre-pandemic trend. The net result is the slowing pace of monthly job gains, and the question at this point is whether less intense and less broadly based hiring gives way to outright layoffs, or whether net hiring stabilizes at a slower pace. While our outlook for the broader economy would be consistent with the latter outcome, not the former, the reality is that it is simply too soon to know the answer to that question.
September Manufacturing Employment Friday, 10/4 Range: -10,000 to 5,000 jobs Median: -5,000 jobs	Aug = -24,000 jobs	Up by 2,000 jobs.
September Average Weekly Hours Friday, 10/4 Range: 34.2 to 34.4 hours Median: 34.3 hours	Aug = 34.3 hours	Unchanged at 34.3 hours. Tracking changes in weekly hours across industry groups is always important but is even more so at present. To the extent firms are engaging in labor market hoarding, there is only so long they will continue to push down hours worked before deciding layoffs would be the more feasible option. As such, further erosion in average weekly hours could be a sign of looming layoffs.
September Average Hourly Earnings Friday, 10/4 Range: 0.2 to 0.3 percent Median: 0.3 percent	Aug = +0.4%	Up by 0.2 percent, for a year-on-year increase of 3.8 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.4 percent increase in aggregate private sector wage and salary earnings, leaving them up by 4.9 percent year-on-year. With the early end to the September survey period, the estimate of average hourly earnings could be biased lower, as is commonly the case when the survey period ends prior to the middle of the month. Though many point to growth in average hourly earnings as a key gauge of labor market conditions, what almost always goes overlooked is that firms do not report average hourly earnings in the monthly survey of establishments. Instead, they report employee counts, total payroll, and total hours worked, from which the BLS estimates average hourly earnings. To the extent the timing of salary distributions leads to payrolls being underreported in those months with early ends to the survey period, the estimate of average hourly earnings will be biased lower. In other words, if our below-consensus forecast is on the mark here, that could, and likely would, say more about the calendar than about underlying labor market conditions.
September Unemployment Rate Friday, 10/4 Range: 4.1 to 4.3 percent Median: 4.2 percent	Aug = 4.2%	Unchanged at 4.2 percent. It has been more difficult to gauge labor force growth over the past several months, and if participation surprises to the upside in September that could easily push the unemployment rate up another tenth of a point.

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