ECONOMIC PREVIEW

REGIONS

Week of October 28, 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%	Though this week will be one of the busiest weeks we can remember in terms of the flow of top tier data releases, we're not sure how much clarity the data will provide. The remaining September/Q3 data will be prone to the same seasonal adjustment puffery we've been pointing to since the September employment report hit the wires, while the October employment report will likely be so clouded by the Boeing strike and the effects of the recent hurricanes that it sheds little, if any, light on underlying labor market conditions. Perhaps the most significant items on this week's docket, as they pertain to next week's FOMC meeting, will be the Q3 Employment Cost Index, generally seen as the most reliable gauge of labor compensation costs, and the September JOLTS data, set for release on Tuesday.
Sep. Advance Trade Balance: Goods Tuesday, 10/29 Range: -$101.0 to -$92.0 billion Median: -$95.9 billion	Aug = -$94.3 billion	Narrowing to -$92.8 billion.
October Consumer Confidence Tuesday, 10/29 Range: 95.0 to 103.0 percent Median: 99.3 percent	Sep = 98.7	Up to 99.5, though there is little reason to expect the headline index number to have moved much one way or the other. Lower gasoline prices don't seem to have had the same positive impact on consumer confidence as has typically been the case in the past, in no small measure because consumers have yet to see meaningful relief from the cumulative effects of inflation over the past few years. At the same time, consumers' assessments of labor market conditions, weighted heavily in the Conference Board's survey, have been increasingly less favorable over the past several months. That said, the steady narrowing in the "jobs plentiful/jobs hard to get" spread reflects a sharp decline in the share of consumers characterizing jobs as "plentiful" and a jump in the share characterizing jobs as "not so plentiful" while the share characterizing jobs as "hard to get" has risen only modestly. As we discussed in our October *Monthly Economic Outlook*, this is in stark contrast to prior periods in which a narrowing spread has been driven by jobs being increasingly seen as "hard to get" and is, in a sense, a parallel to our characterization of the labor market cooling but not collapsing. Either way, dimming perceptions of labor market conditions can still weigh on consumers' moods and, in turn, spending patterns, which we believe has been the case over recent months. Retailers, no doubt, are hoping that changes, at least temporarily, over the upcoming holiday shopping season.
Q3 Real GDP – 1st estimate Wednesday, 10/30 Range: 2.0 to 3.5 percent Median: 3.0 percent SAAR	Q2 = +3.0% SAAR	Up at an annualized rate of 3.2 percent, with even faster growth in real consumer spending providing the main support while fixed investment and a slightly smaller trade deficit also lend a hand. Even if our forecast is on or near the mark, however, neither consumer spending nor the broader economy seem as robust as would be implied by the Q3 growth prints. One reason we say this is that much of the data for the month of September was bolstered by favorable seasonal adjustment, and to the extent these data points feed into the estimate of GDP, it too will be bolstered. To us, the most meaningful line item from this report will be the estimate of not seasonally adjusted Q3 real GDP, and we'll look to the year-on-year percentage change as the most reliable gauge of underlying conditions. To be sure, we're not expecting a dismal print here, but instead expect the Q3 data align with the data over the past few quarters showing growth in not seasonally adjusted real GDP falling back in line with the pre-pandemic trend.
Q3 GDP Price Index – 1st estimate Wednesday, 10/30 Range: 1.2 to 2.5 percent Median: 2.0 percent SAAR	Q2 = +2.5% SAAR	Up at an annualized rate of 1.9 percent.
Q3 Employment Cost Index Thursday, 10/31 Range: 0.7 to 1.0 percent Median: 0.9 percent	Q2 = +0.9%	Up by 0.8 percent, with the wages component up by 0.8 percent and the benefit costs component up by 0.9 percent. Our forecast would leave the total ECI up 3.9 percent year-on-year, with wage costs up 4.0 percent and benefit costs up 3.8 percent. The ECI is considered by many, including the FOMC, to be the most reliable gauge of changes in labor compensation costs, and the Q3 read comes just days ahead of the November FOMC meeting. That alone would mean that the Q3 data will be carefully scrutinized, but the Q3 data could be even more meaningful given the high degree of noise we and most others expect to cloud the October employment report. Either way, we expect the Q3 data to show further moderation in the growth of labor comp costs consistent with other signals showing cooling 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

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September Personal Income Thursday, 10/31 Range: 0.2 to 0.7 percent Median: 0.3 percent	Aug = +0.2%	Up by 0.3 percent. Despite a hefty increase in private sector payrolls in September, the drop in the average length of the workweek will temper the increase in aggregate private sector wage and salary earnings, the largest component of personal income. Even so, our forecast would still leave private sector earnings up six percent year-on-year, comfortably above inflation. While our forecast anticipates trend-like increases in rental income and transfer payments, we also anticipate a third straight monthly decline in asset-based income as lower interest rates weigh on interest income and negate what we expect will be a modest rebound in dividend income.
September Personal Spending Thursday, 10/31 Range: 0.2 to 0.6 percent Median: 0.4 percent	Aug = +0.2%	Up by 0.4 percent. The seasonally adjusted data on control retail sales feed into the BEA's estimates of consumer spending on goods in the monthly data and, in turn, the GDP data. As we've noted elsewhere, September control retail sales were flattered by seasonal adjustment, and while that would suggest a sizable increase in the BEA's measure of consumer spending on nondurable goods, one counter will be a sharp decline in gasoline sales thanks to lower prices. At the same time, while an increase in unit motor vehicle sales will be a positive for growth in spending on consumer durable goods, the retail sales data suggest spending in other categories of consumer durables, such as furniture, appliances, and electronics, was weak. While we look for a trend-like increase in services spending, we'll be more interested in the details on discretionary services spending. Our proxy for discretionary services spending has softened over recent months; to us, the surprise is not that this has happened but that it took as long to happen as it did. We will, however, once again note that while many automatically attribute softening spending on discretionary services as a sign of growing financial distress, that there is less and less remaining pent-up demand is also playing a role. Though we expect the GDP data will show real consumer spending grew at an annual rate of better than three percent in Q3, we expect a markedly slower pace of growth in Q4.
September PCE Deflator Thursday, 10/31 Range: 0.1 to 0.3 percent Median: 0.2 percent	Aug = +0.1%	Up by 0.2 percent, for a year-on-year increase of 2.0 percent. We look for the core PCE Deflator to be up by 0.3 percent, which would yield a year-on-year increase of 2.6 percent. Even if headline PCE inflation hits 2.0 percent, that doesn't mean the FOMC will declare victory and go home, particularly as falling energy prices have been a meaningful drag on headline inflation while core inflation remains somewhat elevated and at least some FOMC members worry about inflation reaccelerating. That said, we do not see the core PCE Deflator print as standing in the way of a twenty-five basis point cut in the Fed funds rate at the November FOMC meeting.
October ISM Manufacturing Index Friday, 11/1 Range: 46.5 to 49.1 percent Median: 47.6 percent	Sep = 47.2%	Down to 47.0 percent. There is little to suggest the malaise that has loomed over the manufacturing sector for the better part of the past two years eased its grip in October, and even if our below-consensus forecast proves too low, the headline index still won't be in sight of the 50.0 percent break between contraction and expansion. Aside from the ongoing weakness in new orders, an added hurdle may be that customer inventories were seen as being in balance in the September survey, which may have weighed on new orders in October. We have noted that uncertainty over the outlook for fiscal, trade, and regulatory policy has acted as a meaningful drag on the factory sector over recent months. That drag, however, should begin to abate and, with a policy mix perceived as, on net, favorable and some cooperation from global growth, conditions in the manufacturing sector could begin to improve in fairly short order.
September Construction Spending Friday, 11/1 Range: -0.5 to 0.5 percent Median: 0.0 percent	Aug = -0.1%	Down by 0.2 percent.
October Nonfarm Employment Friday, 11/1 Range: -10,000 to 164,000 jobs Median: 110,000 jobs	Sep = +254,000 jobs	Up by 44,000 jobs, with private sector payrolls up by 18,000 jobs and public sector payrolls up by 26,000 jobs. Forecasts of October job growth are all over the map, for good reason, and we think it likely the October employment report will be much more noise than signal. We can point to three main factors we expect to impact the October data: 1) the direct and indirect effects of the Boeing strike; 2) the effects of Hurricanes Helene and Milton; and 3) unfavorable seasonal adjustment for the month CONTINUES ON PAGE 3

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October Nonfarm Employment Friday, 11/1 Range: -10,000 to 164,000 jobs Median: 110,000 jobs	Sep = +254,000 jobs	CONTINUED FROM PAGE 2: of October. That there is no way to gauge the potential net effect of these factors in advance pretty much drives our degree of confidence in our forecast down to zero and, as such, a big miss, in either direction, will not be at all surprising to us. The direct effect of the Boeing strike will be a reduction of 33,000 jobs from private sector payrolls, as striking workers are not counted as employed in the establishment survey. The indirect effects would be layoffs and/or reductions in hours worked amongst suppliers that are heavily reliant on Boeing. To that point, the weekly data show initial claims for unemployment insurance benefits in Washington state were roughly double the pre-strike run rate during the October survey period, and the impact on Boeing's supply chain no doubt extends into other states. Keep in mind that while the striking Boeing workers are counted as employed in the household survey, meaning no direct impact on the unemployment rate, any furloughed workers from Boeing suppliers will be counted as unemployed, meaning that on net the strike will add upward pressure to the October unemployment rate. While nonfarm payroll counts, hours worked, and the unemployment rate will have been impacted by the hurricanes, it is difficult to assess the degree to which this will be the case. Recall that Hurricane Milton struck during the October establishment survey week, so anyone having worked at any point in the earlier part of the week would be counted as employed. While many people in the impacted areas evacuated in advance, it could be that the effects of Milton will be more visible in the November data on nonfarm payrolls and hours worked. That said, our forecast anticipates significant effects on the October data from both the establishment and household surveys. The metrics from the household survey data to watch are the numbers of people who either did not work or worked fewer than full-time hours due to adverse weather and the number on temporary layoff – recall that these metrics spiked in the July data, reflecting the effects of Hurricane Beryl. Given what we expect will be significant adverse effects from the Boeing strike and the hurricanes, it may not be possible to isolate the effects of what we expect will be harsh seasonal adjustment. Recall that the reported increase in private sector payrolls in September was significantly inflated by friendly seasonal adjustment, as we noted at the time. With October typically marking the start of holiday season hiring, the October seasonal factors will be geared for sizable increases in areas such as retail trade and warehousing and delivery services. Granted, the bulk of such hiring takes place in November, but if October hiring falls short of typical levels, any such shortfalls will be treated most unpleasantly by seasonal adjustment. In short, the October employment report will likely be so riddled with noise that it will provide little clarity on underlying labor market conditions.
October Manufacturing Employment Friday, 11/1 Range: -40,000 to -5,000 jobs Median: -21,000 jobs	Sep = -7,000 jobs	Down by 38,000 jobs.
October Average Weekly Hours Friday, 11/1 Range: 33.9 to 34.3 hours Median: 34.2 hours	Sep = 34.2 hours	Down to 34.0 hours.
October Average Hourly Earnings Friday, 11/1 Range: 0.2 to 0.6 percent Median: 0.3 percent	Sep = +0.4%	Up by 0.6 percent, for a year-on-year increase of 4.3 percent. Recall that the average hourly earnings metric is not something firms report directly but rather is a residual based on total payroll spend and total hours worked. As such, our forecast reflects what we expect will be a sharp decline in total hours worked, and if we're wrong on this, our forecast for average hourly earnings will be too high. Our calls on job growth, hours worked, and hourly earnings would leave aggregate private sector wage and salary earnings flat, leaving them up by 4.8 percent year-on-year.
October Unemployment Rate Friday, 11/1 Range: 4.1 to 4.3 percent Median: 4.1 percent	Sep = 4.1%	Up to 4.3 percent. The reported decline in the jobless rate in September was nothing more than a gift from seasonal adjustment. Our forecast for October anticipates some payback while incorporating the effects of the hurricanes and the Boeing strike.

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