ECONOMIC PREVIEW

REGIONS

Week of February 3, 2025

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 28-29 FOMC meeting):* Target Range Mid-point: 4.375 to 4.375 percent Median Target Range Mid-point: 4.375 percent	Range: 4.25% to 4.50% Midpoint: 4.375%	Though the news will likely be dominated by developments on the trade (war) front, this is nonetheless a busy week for economic data releases. The highlight will be the January employment report (see Pages 2 and 3), though we'll caution that a host of factors are combining to create considerable uncertainty around forecasts of the labor market data and interpreting the data will be more involved than is typically the case.
January ISM Manufacturing Index Monday, 2/3 Range: 48.3 to 52.5 percent Median: 49.9 percent	Dec = 49.3%	Up to 50.3 percent but, to paraphrase Inigo Montoya, we do not think that number would mean what you think it would mean. While improving reads on the new orders and production components pushed the headline index higher over the final two months of 2024, we saw that as more of a reflection of the quirks in how the ISM's diffusion indexes are calculated as opposed to genuine signs of improvement, as the firm level details did not tell as positive of a story as implied by the diffusion indexes. As such, even if the headline index pushes over the 50.0 percent "Mendoza line," we still think there are stern headwinds confronting the manufacturing sector. Moreover, the January diffusion indexes will be blessed by favorable seasonal adjustment, making the firm level splits even more worth focusing on. It could be, however, that we're selling the ISM's index short considering the solid advances in core capital goods orders over the prior two months, and we'll happily acknowledge that if the data warrant our doing so. But, we think the drags from wobbly global growth, still-high financing costs, continued increases in prices of non-labor inputs, and the high degree of uncertainty around tariffs are unlikely to abate quickly or easily.
December Construction Spending Monday, 2/3 Range: -0.1 to 1.1 percent Median: 0.2 percent	Nov = 0.0%	Up by 0.3 percent
December Factory Orders Tuesday, 2/4 Range: -1.1 to 0.6 percent Median: -0.7 percent	Nov = -0.4%	Down by 1.0 percent, dragged down by a decline in durable goods orders (mainly civilian aircraft).
December Trade Balance Wednesday, 2/5 Range: -$99.6 to -$80.0 billion Median: -$96.8 billion	Nov = -$78.2 billion	Widening to -$96.8 billion on a significantly wider deficit in the goods account. As with inventory accumulation in the nonfarm business sector, global trade flows were highly volatile over the back half of 2024, reflecting efforts to get ahead of a potential port strike and expanded tariffs. With a port strike no longer a concern, uncertainty around tariffs remains, which could continue to rock the trade data over coming months. As such, the wide swings in exports and imports of goods seen over the past several months could continue, with a still-wobbly global growth outlook acting as an additional drag on U.S. exports of goods. Our sense is that the BEA's estimate of the trade deficit incorporated into their initial estimate of Q4 GDP was a bit too low, and the December trade data will settle that question. If we're correct on this point, it raises the prospect of the initial Q4 real GDP growth print of 2.3 percent, annualized, being pushed lower.
January ISM Non-Manufacturing Index Wednesday, 2/5 Range: 52.5 to 56.5 percent Median: 54.1 percent	Dec = 54.1%	Down to 53.4 percent. While the expansion in the services sector remains intact, it could be that the impact of the California wildfires and unusually harsh winter weather across much of the U.S. will have weighed on activity during the month.
Q4 Nonfarm Labor Productivity Thursday, 2/6 Range: 0.8 to 2.2 percent Median: 1.4 percent SAAR	Q3 = +2.2% SAAR	Up at an annualized rate of 1.2 percent. Real output in the nonfarm business sector grew at an annual rate of 2.3 percent in Q4 which, given that aggregate private sector hours worked grew at a 1.5 percent rate, would figure to leave little room for productivity growth. But, our forecast anticipates the decline in aggregate hours worked amongst the self-employed, which declined at a double-digit annualized rate, and hours worked in the always mysterious but never entertaining "other" workers category will provide somewhat of an offset supportive of productivity growth. Though our forecast would push the eight-quarter moving average, which we see as a reliable proxy for the trend rate of productivity growth, down from where it was in Q3, we don't think this marks the end of the acceleration in productivity growth seen over the past several quarters. If we are correct in expecting a much slower pace of labor supply growth in 2025 than seen over the past two years, faster productivity growth will be critical in supporting output growth and tamping down inflation pressures, though in a worst case scenario of a severe deceleration in labor supply growth, productivity growth is unlikely to be sufficient to provide a full offset.

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Q4 Unit Labor Costs Thursday, 2/6 Range: 1.3 to 4.2 percent Median: 3.4 percent SAAR	Q3 = +0.8% SAAR	Up at an annualized rate of 2.9 percent. Though faster wage growth and slower productivity growth will lead to faster growth in unit labor costs than seen in Q3, we think this to be a blip in what remains a decelerating trend rate of growth in labor compensation costs. If we're wrong on the course of productivity growth over coming quarters, however, growth in labor compensation costs will reaccelerate.
January Nonfarm Employment Friday, 2/7 Range: 125,000 to 225,000 jobs Median: 170,000 jobs	Dec = +256,000 jobs	Up by 201,000 jobs, with private sector payrolls up by 162,000 jobs and public sector payrolls up by 39,000 jobs, though the band of uncertainty around that, or any, forecast is much wider than normal thanks to a wide array of factors. First off, the January data will incorporate the results of the annual benchmark revisions to prior estimates of nonfarm employment, hours, and earnings. This is the process by which the BLS's survey data are benchmarked to the Quarterly Census of Employment and Wages (QCEW), a comprehensive accounting of the payroll tax returns that virtually all firms are required to file. The BLS caused quite a stir when they released the preliminary estimate of those revisions showing the level of nonfarm payrolls as of March 2024 would be lowered by 818,000 jobs which, on a percentage basis, would be substantially larger than the typical revision. That number surprised us, but not by all that much; we've been on record since back in 2023 in our view that the monthly estimates of nonfarm job growth were being meaningfully overstated and had been bracing for a downward revision in the range of 600,000-650,000 jobs, still larger than the typical revision. Subsequent flows of the QCEW data suggest the final benchmark revision will take closer to 700,000 jobs off the level of nonfarm payrolls as of March 2024, not much of a consolation prize. At the same time, the BLS will revamp the birth/death model, used to account for firms coming into/going out of existence before being captured in the QCEW data, which has been a persistent source of upward bias in the estimates of monthly job growth. Though the level-change in the estimate of nonfarm employment in any given round of revisions does not necessarily lead to significant changes in monthly patterns of job growth, we do think that the average pace of job growth previously reported for 2024, an average monthly increase of 186,000 jobs, will be taken down closer to 150,000 jobs. So, right off the bat, any forecast of January job growth comes off a base which will have shifted to a degree we do not yet know. The California wildfires and what was unusually harsh winter weather across much of the nation during the January survey week will have impacted the payroll survey data. Based on the weekly jobless claims data, we estimate the wildfires will take around 15,000-20,000 jobs off of January nonfarm payrolls, but it is unlikely that BLS will be able to offer a specific estimate. We think the unusually harsh winter weather will have had more of an impact on hours worked (see Page 3) than on the level of employment, though there is some downside risk to payrolls in construction and leisure and hospitality services. Though the payroll survey data do not directly account for weather effects, the household survey metrics on those either working part-time or not at all due to adverse weather will help gauge the extent of any such effects in the payroll survey data. That said, we think residual seasonality will flatter the January data as the drop in not seasonally adjusted payrolls will be smaller than the January seasonal factors are geared toward. The specific industry groups in which any such effects would be more pronounced are construction, leisure and hospitality services, warehousing/delivery services, and retail trade, with somewhat restrained 2024 holiday season hiring in the latter two industry groups leading to a smaller January decline. We also see state and local government as another potential source of favorable seasonal adjustment. To anyone still reading, big props for your stamina. Or, you just may need to get out more, Either way, that there will be so many moving parts will make interpreting the January employment report somewhat challenging. When all is said, done, and revised, however, we don't think our assessment of labor market conditions will have changed all that much, if at all. The trend rate of job growth has been slowing, and the benchmark revisions will help us better isolate that trend but, so far, any such slowing has been much more a function of a slower pace of hiring than a rising pace of layoffs. Unless and until we see a meaningful and sustained pick-up in the pace of layoffs, we'll maintain a constructive take on labor market conditions.

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January Manufacturing Employment Friday, 2/7 Range: -20,000 to 5,000 jobs Median: -2,000 jobs	Dec = -13,000 jobs	Up by 4,000 jobs.
January Average Weekly Hours Friday, 2/7 Range: 34.2 to 34.3 hours Median: 34.3 hours	Dec = 34.3 hours	Down to 34.2 hours, reflecting the unusually harsh winter weather that gripped much of the nation during the January survey week.
January Average Hourly Earnings Friday, 2/7 Range: 0.3 to 0.4 percent Median: 0.3 percent	Dec = +0.3%	Up by 0.4 percent, for a year-on-year increase of 3.9 percent. Our forecast is simply the flip side of our forecast of a decline in average weekly hours worked. It helps to keep in mind that when replying to the BLS's establishment survey, firms report the number of workers on their payrolls, the number of hours worked, and their total payroll outlay, but nowhere do they report average hourly earnings, which BLS reports as the ratio of total payroll outlays to total hours worked. If we are correct in expecting harsh winter weather held down hours worked, a natural extension would be a sharp increase in average hourly earnings which, in and of itself, would say nothing about labor market conditions or the intensity of inflation pressures in the broader economy. Our calls on job growth, hours worked, and hourly earnings would yield a 0.3 percent increase in aggregate private sector wage and salary earnings, leaving them up 5.2 percent year-on-year. If that monthly increase in aggregate earnings seems smaller than would be warranted by the increase in average hourly earnings we anticipate, that simply reflects the power of seemingly small changes in average weekly hours; that the year-on-year increase would be so large simply reflects favorable base effects stemming from what was a miniscule increase in aggregate earnings last January.
January Unemployment Rate Friday, 2/7 Range: 4.0 to 4.2 percent Median: 4.1 percent	Dec = 4.1%	Down to 4.0 percent. Though the household survey data are not impacted by the benchmark revisions to the establishment survey data, the January data will not exactly be clear cut. As is the case each year, the January household survey data will incorporate new population controls based on the prior year's vintage population data. One implication is that the levels of variables such as the labor force and household employment are not comparable from one year to the next. Why that is particularly worth keeping in mind this January is that the Census Bureau's Vintage 2024 population data incorporated revised methodology for estimating international in-migration, resulting in significantly greater numbers of in-migrants over the 2022-2024 period than previously estimated, to the point that international in-migration accounted for eighty-five percent of total U.S. population growth over this span. As such, we expect large level-increases in the labor force and household employment in the January 2025 data, though we further expect these changes to have little, if any, impact on the ratios, such as the labor force participation rate and the unemployment rate, estimated from the level data. BLS will offer some insights as to the effects of the updated population controls. While this may seem like no more than a glorified accounting exercise, here is one reason it matters. For some time now, many have been pointing to what has been a flattish trend in household employment as a sign of weakness in the economy, with some going so far as to point to this trend as evidence the economy was in or on the verge of recession. Our argument has been that the household survey data were significantly undercounting foreign born labor and, in turn, household employment. The updated population controls will help settle this matter.

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