ECONOMIC PREVIEW

REGIONS

Week of January 29, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 30-31 FOMC meeting):* Target Range Midpoint: 1.375 to 1.375 percent Median Target Range Midpoint: 1.375 percent	Range: 1.25% to 1.50% Midpoint: 1.375%	It is literally an embarrassment of riches. At least in terms of us and our forecasting counterparts being, well, blessed with an abundance of plausible reasons as to why our forecasts for this week's slate of data could be off the mark. For instance, the December personal income data and the Q4 Employment Cost Index data could be impacted by the recently enacted tax bill. Unusually harsh winter weather across much of the U.S., particularly in Southern states, could impact the December construction data and the January employment data. Seasonal adjustment issues tied to the dismissal of temporary holiday season workers could lead to a miss on forecasts of January job growth. Even aside from potential seasonal adjustment issues, an early survey period for the establishment survey could bias estimates of job growth and hourly earnings lower if history is any guide. At the same time, the January employment report will incorporate the annual benchmark revisions to the recent historical data on employment, hours worked, and hourly earnings, which makes forecasting the January data in any given year somewhat tricky. Okay, fine, cue up the tiny violin orchestra for a heartfelt rendition of "Nobody Knows The Trouble I've Seen" but the bottom line is that some of this week's top-tier data releases could be more noise than signal. Of course, the real bummer here is that we've got only a brief time in which to use up what amounts to a whole year's worth of excuses if (fine, when) our forecasts are off the mark – this plethora of plausible passes will last us through the January data, but not any longer than that. Which means that once we get by the January data we'll simply have to fall back on the oldest and most reliable excuse of them all – "just plain wrong."
December Personal Income Monday, 1/29 Range: 0.1 to 0.5 percent Median: 0.3 percent	Nov = +0.3%	Up by 0.3 percent. Past instances of changes in the tax code have seen large shifts in the timing of discretionary income payments, such as bonus payments. We could see such an effect play out in the December personal income data, to the extent those receiving such year-end bonus payments were able to push them back to January in order to take advantage of lower personal income tax rates. As such, we have supplemental labor payments making no contribution to December personal income, though to the extent we're correct on this the January data will see payback. This is enough to lower our forecast from a 0.4 percent increase to a 0.3 percent increase, but this is nothing more than noise in the data as it simply impacts the timing, not the amount, of such income earned. Either way, we look for a moderate increase in wage and salary earnings, with larger gains in rental income and interest income. Our forecast would mean total personal income increased by 3.1 percent in 2017.
December Personal Spending Monday, 1/29 Range: 0.3 to 0.6 percent Median: 0.4 percent	Nov = +0.6%	Up by 0.6 percent. Sharply higher utilities outlays will fuel growth in services spending. While lower gasoline prices will have acted as a drag, we look for a modest increase in spending on nondurable consumer goods, while motor vehicle sales and furniture sales will provide a big lift to spending on consumer durables. We look for the PCE deflator to be up by 0.1 percent and the core PCE deflator to be up by 0.2 percent, yielding year-on-year increases of 1.7 percent and 1.6 percent, respectively.
January Consumer Confidence Tuesday, 1/30 Range: 120.0 to 125.0 Median: 123.2	Dec = 122.1	Up to 123.2
Q4 2017 Employment Cost Index Wednesday, 1/31 Range: 0.4 to 0.7 percent Median: 0.5 percent	Q3 = +0.7%	Up by 0.6 percent, with wages up by 0.6 percent and benefits up by 0.5 percent. Our forecast would leave both the total ECI and the wage component up by 2.5 percent for 2017 and the benefits component up by 2.4 percent. But, our point on the timing of discretionary income payments in the personal income data also applies here.
Q4 2017 Nonfarm Labor Productivity Thursday, 2/1 Range: 0.1 to 2.1 percent Median: 1.2 percent SAAR	Q3 = +3.0% SAAR	Up at an annualized rate of 0.4 percent. Real output in the nonfarm business sector rose at an annualized rate of 3.2 percent in Q4. Given what we expect will be the largest increase in aggregate hours worked since Q4 2015 (again, private sector hours worked are subject to change via the benchmark revisions to the employment data), the net result would be annualized productivity growth of 0.4 percent. For 2017 as a whole, this would leave productivity up by 1.3 percent which, while by no means a productivity miracle, would nonetheless be the best annual growth since 2010.
Q4 2017 Unit Labor Costs Thursday, 2/1 Range: -0.3 to 2.6 percent Median: 0.9 percent SAAR	Q3 = -0.2% SAAR	Up at an annualized rate of 2.2 percent. This would leave unit labor costs up just 0.6 percent for 2017 as a whole, reflecting the combination of faster productivity growth and continued moderate wage growth in 2017.

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January ISM Manufacturing Index Range: 57.7 to 60.0 percent Median: 59.0 percent	Thursday, 2/1	Dec = 59.7%	Down to 58.6 percent. Our forecasts of the headline index have been too low over the past few months (see page 1, under "just plain wrong") as we've looked for the index to settle back from what have been some lofty levels. That's still our story and we're still sticking to it, as we look for the gauges of employment, new orders, and current production to settle back from December's elevated readings. To be sure, our forecast is still consistent with what has become a solid and broad based expansion in the manufacturing sector, which we expect to remain the case through 2018.
December Construction Spending Range: -0.3 to 0.8 percent Median: 0.5 percent	Thursday, 2/1	Nov= +0.8%	Up by 0.1 percent.
December Factory Orders Range: 0.3 to 2.0 percent Median: 0.8 percent	Friday, 2/2	Nov= +1.3%	Up by 1.8 percent largely due to a spike in transportation orders. As in any month, the real focus of the December report should be the detail on core capital goods orders and shipments.
January Nonfarm Employment Range: 160,000 to 230,000 jobs Median: 184,000 jobs	Friday, 2/2	Dec = +148,000	Up by 192,000 jobs with private payrolls up by 181,000 jobs and government payrolls up by 11,000 jobs. As already noted, the January data will incorporate the annual benchmark revisions to the recent historical data, which lessens our confidence in our forecast. Additionally, the January survey week ended prior to the 15th of the month, and such early survey periods have historically biased estimates of job growth and average hourly earnings down. But, any such effects for January could be masked by the benchmark revisions. Finally, seasonal adjustment noise tied to seasonal workers in transportation/warehousing and retail trade falling off the payrolls in January could distort the estimate of total job growth. In short, there is the potential for a significant volume of noise in the January employment report.
January Manufacturing Employment Range: 9,000 to 30,000 jobs Median: 20,000 jobs	Friday, 2/2	Dec = +25,000	Up by 22,000 jobs.
January Average Weekly Hours Range: 34.4 to 34.5 hours Median: 34.5 hours	Friday, 2/2	Dec = 34.5 hours	Unchanged at 34.5 hours. One element of the benchmark revisions we are eager to see is whether the increase in weekly hours seen in Q4 2017 survives revision. Our view is that a still-short workweek represents an underappreciated form of labor market slack, but the initial Q4 data at least suggested progress on this front.
January Average Hourly Earnings Range: 0.1 to 0.4 percent Median: 0.3 percent	Friday, 2/2	Dec = +0.3%	Up by 0.2 percent, for a 2.5 percent year-on-year increase. As noted above, the early survey period in January will bias estimates of average hourly earnings lower, but this will be countered by increases in minimum wages that took effect January 1 across a sizeable portion of the U.S., which we think will have added one-tenth of a point to the change in hourly earnings. It simply isn't clear which of these effects will prevail in the estimate of overall average hourly earnings for January, which gives us a low degree of confidence in our forecast.
January Unemployment Rate Range: 4.0 to 4.1 percent Median: 4.1 percent	Friday, 2/2	Dec = 4.1%	Unchanged at 4.1 percent. Each year the January household survey incorporates updated population controls. The historical data, however, are not revised to account for these new controls, and the resulting discontinuity in the data means there are often sizeable jumps in the January estimates of the labor force and the level of household employment and, in turn, the unemployment rate. There is no reason to think this year will be an exception to that general rule, hence our low degree of confidence in our forecast of the unemployment rate.

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