| Indicator/Action Economics Survey: | | Last Actual: | Regions' View: |
|---|---|---|---|
| **Fed Funds Rate: Target Range Midpoint** *(After the FOMC meeting on June 14-15):* Target Range Midpoint: 0.375 to 0.625 percent Median Target Range Midpoint: 0.375 percent | | 0.375% | We've been at this for more years than we'd care to admit and in that time have scoured the details of more economic data releases than we can even begin to count. While there have been more than a few surprises along the way, seldom have there been reports that have left us as confounded as we are by the May employment report. The reported gain of just 38,000 nonfarm jobs was over 100,000 below the consensus estimate, and even allowing for the more than 37,000 job decline due to striking Verizon workers leaves us with a puzzlingly weak number. At the same time, prior estimates for job growth in March and April were revised down by a net 59,000 jobs for the two-month period.<br><br>There are a number of possible explanations for the weak May employment report, some more benign than others. We had noted earlier in the year it was likely that seasonal adjustment issues were inflating job growth numbers, most notably in construction and retail trade. But, any time the data in one month are distorted by seasonal adjustment issues, there will always be payback in a subsequent month. To some extent, we believe this payback has come in the April and May employment data. Additionally, the response rate for the May establishment survey was 74 percent, well below the 82.3 percent for the past three Mays. This suggests there could be sizeable revisions as the BLS backfills the May estimate with more complete responses.<br><br>We do not doubt these factors played a part in the surprisingly weak May employment report, but neither do we think them to be the only factors. One decidedly less benign possibility is the sharp deceleration in the rate of job growth is but a logical follow through to what has been steadily weakening business investment spending amidst contracting corporate profit margins. If this were the case, the next step in the progression would be stepped-up layoffs, making the weekly jobless claims numbers worth watching even more closely. We've been arguing all along that what to some had been a curiously rapid rate of job growth was simply a reflection of firms, in a slow-revenue growth environment fraught with uncertainty, opting to take on variable costs, i.e., labor, as opposed to fixed costs, i.e., capital, in order to meet demand growth. In this framework, however, barring a materially faster rate of productivity growth (which we see as highly unlikely), the only explanation for such a sharp drop-off in the pace of hiring would be that demand growth has fallen off sharply.<br><br>It is too soon for us to draw any definitive conclusions from the May employment report and, we suspect, too soon for the FOMC to do so. Like the rest of us, the FOMC will need more time, and more data, in order to put the May employment report in its proper context. While the report likely kills any chance of a Fed funds rate hike at this month's FOMC meeting, we think it premature to rule out the July meeting, particularly given how insistent many FOMC members have been of late that the time for a rate hike was drawing near. That said, what had been a "data dependent" FOMC is even more so in the wake of the surprisingly weak May employment report. |
| **Q1 Nonfarm Productivity – revised** Range: -0.8 to -0.2 percent Median: -0.6 percent SAAR | Tuesday, 6/7 | Q1 pre = -1.0% | Down at an annualized rate of 0.6 percent. With the upward revision to Q1 real GDP growth, real nonfarm business output is now shown to have grown by 0.9 percent, annualized, rather than 0.4 percent as originally reported. Along with a slight downward revision to aggregate private sector hours worked, this means nonfarm labor productivity did not decline as rapidly as reported in the initial estimate. As we routinely note, given the inherent volatility in the quarter-to-quarter growth rates, we prefer to look at productivity growth on an 8-quarter moving average basis as a more meaningful gauge of the underlying trend rate. Our call would leave the 8-quarter moving average at 0.7 percent, an anemic pace which has many implications for the broader economy and for monetary policy, none of them good. |
| **Q1 Unit Labor Costs – revised** Range: 3.5 to 4.6 percent Median: 4.0 percent SAAR | Tuesday, 6/7 | Q1 pre = +4.1% | Up at an annualized rate of 4.4 percent. The milder decline in productivity growth would suggest a downward revision to growth in unit labor costs. But, we look for an upward revision to growth in hourly compensation to have a bigger impact and, as such, expect growth in unit labor costs to be revised higher. Our call would leave the 8-quarter moving average growth rate of unit labor costs at 1.8 percent, reflecting little sustained upward pressure on compensation costs. |

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