ECONOMIC PREVIEW

REGIONS

Week of April 4, 2016

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on April 26-27):* Target Range Midpoint: 0.375 to 0.375 percent Median Target Range Midpoint: 0.375 percent		0.375%	In her March 29 speech to the Economic Club of New York, Fed Chairwoman Yellen reiterated the case for the FOMC sticking to a gradual approach to raising the Fed funds rate. The March employment report was an apt illustration of her line of argument. Total nonfarm employment rose by 215,000 jobs in March, and over the past 12 months the U.S. economy has added 2.778 million jobs, off the peak pace of job growth seen in 2015 but nonetheless a healthy pace of job creation. Of more interest, however, is the steady increase in labor force participation over the past six months. Indeed, the bump up in the unemployment rate in March was the result of the increase in the labor force more than offsetting the increase in household employment. Steadily improving labor market conditions are drawing greater numbers of people into/back into the labor force and the great majority of these entrants are employed upon entry. Over the past six months, an average of 4.5 million people have transitioned from not in the labor force in one month to employed the next month, easily the highest sustained rate in the life of the data on labor force flows (which go back to 1990). This steady inflow of labor force entrants, which we figure still has a way to run, indicates a greater degree of labor market slack than implied by the headline unemployment rate, a point frequently made by Dr. Yellen. The flip side to this, however, is that as long as this inflow continues, wage growth will struggle to gain traction. Our estimate is there are at least two million more people who are either unemployed, underemployed, or marginally attached to the labor force than would be the case in a fully healthy labor market. This is one reason we expect hourly earnings growth, which came in at 2.3 percent in March, to remain below historical norms into next year. Our view is that what we are seeing is a further unwinding of the cyclical component of the decline in the labor force participation rate which, again, we think has further to go. At some point, however, this will run its course and the structural component of the decline in the participation rate, which stems from demographic factors, will again dominate and the participation rate will turn back down. That of course will present a more challenging policy landscape for the FOMC to navigate but for now the "go slow" approach remains in place.
February Factory Orders Range: -2.2 to -0.9 percent Median: -1.7 percent	Monday, 4/4	Jan = +1.6%	<u>Down</u> by 1.8 percent due to the sharp decline in orders for durable goods.
February Trade Deficit Range: -$47.0 to -$44.9 billion Median: -$46.2 billion	Tuesday, 4/5	Jan = -$45.7	<u>Widening</u> to -$46.2 billion. The advance report on the balance of trade in goods showed both imports and exports rose in February, leading to a slightly wider trade deficit. Still, the increase in exports of U.S. goods was encouraging, as it ended a string of four consecutive monthly declines. Additionally, the ISM Manufacturing Index for March showed an increase in new export orders for U.S. goods. These could be signs that global economic conditions are beginning to stabilize, and what has been a slightly softer U.S. dollar over recent months may also be helping support U.S. exports. Still, it is far too soon to know whether or not the tide really has turned for U.S. exports.
March ISM Non-Manufacturing Index Range: 53.4 to 55.5 percent Median: 54.1 percent	Tuesday, 4/5	Feb = 53.4%	<u>Up</u> to 54.1 percent.

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