ECONOMIC PREVIEW

REGIONS

Week of August 1, 2016

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on September 20-21):* Target Range Midpoint: 0.375 to 0.375 percent Median Target Range Midpoint: 0.375 percent		0.375%	The July employment report is one of the two employment reports the FOMC will see prior to their September meeting. That meant the bar was already set high, but in the wake of a weak report on Q2 GDP, that bar is now even higher. As to that GDP report, it does not materially alter how we've seen the economy for some time now – strength in the household sector, weakness in the corporate sector, and the latter posing a downside risk to the former.
July ISM Manufacturing Index Range: 51.6 to 53.8 percent Median: 53.0 percent	Monday, 8/1	Jun = 53.2%	<u>Down</u> to 52.4 percent, but still showing expansion in the manufacturing sector. The ISM index has surprised us to the upside over the past two months, most notably the strength in production and new orders. Other indicators, however, paint a slightly darker picture of the factory sector than does the ISM index.
June Construction Spending Range: 0.1 to 1.2 percent Median: 0.5 percent	Monday, 8/1	May = -0.8%	<u>Up</u> by 0.8 percent.
June Personal Income Range: 0.2 to 0.4 percent Median: 0.3 percent	Tuesday, 8/2	May = +0.2%	<u>Up</u> by 0.3 percent, with wages, dividends, and rental income providing most of the support. Our call would leave total personal income up 3.8 percent year-on-year, with aggregate private sector wages up 4.9 percent.
June Personal Spending Range: 0.2 to 0.5 percent Median: 0.3 percent	Tuesday, 8/2	May = +0.4%	<u>Up</u> by 0.3 percent.
July ISM Non-Manufacturing Index Range: 54.4 to 57.0 percent Median: 56.0 percent	Wednesday, 8/3	Jun = 56.5%	<u>Down</u> to 55.6 percent.
June Factory Orders Range: -3.8 to 0.3 percent Median: -1.7 percent	Thursday, 8/4	May = -1.0%	<u>Down</u> by 1.9 percent as a plunge in nondefense aircraft orders dragged durable goods orders lower. Core capital goods orders remained little changed which, given the low level at which they have been hovering, is a discouraging sign.
June Trade Balance Range: -$44.0 to -$40.8 billion Median: -$43.1 billion	Friday, 8/5	May = -$41.1 billion	<u>Widening</u> to -$43.1 billion.
July Nonfarm Employment Range: 150,000 to 277,000 jobs Median: 180,000 jobs	Friday, 8/5	Jun = +287,000	<u>Up</u> by 172,000 jobs with private payrolls <u>up</u> by 176,000 jobs and government payrolls <u>down</u> by 4,000 jobs. This is more in line with what we see as the trend rate of job growth underneath what has been a considerable degree of noise in the monthly data. As always, we'll be watching the hiring diffusion index, which measures the breadth of hiring across industry groups and is our favorite under-the-headlines indicator in the employment report. While the pace of job growth is slowing, it matters whether this reflects most industries continuing to hire, albeit at a more modest pace, or whether it reflects continued hiring in some industries being offset by other industries either not hiring or laying off workers. The former would be normal at this point in the cycle, the latter cause for concern.
July Manufacturing Employment Range: -10,000 to 10,000 jobs Median: 3,000 jobs	Friday, 8/5	Jun = +14,000	<u>Up</u> by 4,000 jobs. Almost the entire gain reported for June was concentrated in one industry, with food manufacturing adding 13,000 workers. A revision to this odd data point could distort the June number for total manufacturing.
July Average Weekly Hours Range: 34.4 to 34.5 hours Median: 34.4 hours	Friday, 8/5	Jun = 34.4 hrs	<u>Unchanged</u> at 34.4 hours.
July Average Hourly Earnings Range: 0.2 to 0.3 percent Median: 0.2 percent	Friday, 8/5	Jun = +0.1%	<u>Up</u> by 0.3 percent, which translates into an over-the-year increase of 2.6 percent. Along with our calls on job growth and hours worked, this would leave aggregate private sector earnings up 0.4 percent (3.9 percent year-over-year). Though still well below normal, growth in hourly earnings has broken out of the narrow range, centered on 2.0 percent, within which it had been trapped for over four years. What is unclear, however, is the extent to which this reflects tighter labor market conditions as opposed to minimum wage increases and higher entry-level wages being paid in certain industries. Time will tell, but the distinction clearly matters.
July Unemployment Rate Range: 4.8 to 4.9 percent Median: 4.8 percent	Friday, 8/5	Jun = 4.9%	<u>Down</u> to 4.8 percent, which is predicated more on at least some payback for the surge in the labor force reported in the June data than on stronger growth in household employment.

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