ECONOMIC PREVIEW

REGIONS

Week of December 5, 2016

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on December 13-14):* Target Range Midpoint: 0.625 to 0.625 percent Median Target Range Midpoint: 0.625 percent		0.375%	The November employment report showed further improvement in labor market conditions but also offered some cause for concern. Total nonfarm employment rose by 178,000 jobs, roughly in line with expectations. It is worth noting that over the past five years, the average revision from the first to the third estimate for the month of November was a positive 79,000 jobs. Given the response rate to this November's establishment survey was just 68.0 percent, the lowest November response rate since 2010, it's a fairly good bet this year's initial print for November job growth will be revised higher. One cause for concern is the decline in the one-month hiring diffusion index, which fell to 555.5 percent in November, marking the fourth consecutive monthly decline. Broad based hiring across the private sector has been a hallmark of the current expansion, and we do not yet know whether the recent downturn reflects firms having a tougher time finding suitably skilled labor or whether it simply reflects job growth settling into a slower trend more in line with the underlying trend rate of GDP growth. We'll be watching this closely over coming months. One thing we are not concerned with is the reported decline in average hourly earnings in November. This simply reflects the reversal of the calendar effects that led to earnings growth being overstated in September and October. Of more significance is that hourly earnings are rising at a 2.5 percent year-over-year rate, which is in line with other measures of wage growth and still below the growth that would be consistent with full employment. And, contrary to some analysts, we do not see November's 4.6 unemployment rate as evidence we are at or very near to full employment, as there is still considerable slack in the labor market that we think will continue to act as a drag on wage growth well into 2017. For the FOMC, the November employment report was broadly in line with expectations. As such, it will neither pose a hurdle to the Committee raising the funds rate at their December meeting nor make them feel inclined to hasten the pace at which they expect subsequent rate hikes to come.
Nov. ISM Non-Manufacturing Index Range: 55.0 to 56.5 percent Median: 55.5percent	Monday, 12/5	Oct = 54.8%	Up to 56.1 percent as activity in the services sector continues to expand at a healthy clip.
October Trade Balance Range: -$44.0 to -$36.2 billion Median: -$42.0 billion	Tuesday, 12/6	Sep = -$36.4 bil	Widening to -$41.7 billion. Advance data on trade in goods show a sharp decline in U.S. exports along with a jump in imports resulted in a larger deficit in the goods account, and we expect a slightly smaller surplus in the services account. The net result is a wider overall trade deficit. Growth in exports added 1.18 percentage points to top-line real GDP growth in Q3, but that spike in exports will be reversed in Q4 and, as such, we look for trade to be a drag on current quarter growth.
Q3 Nonfarm Productivity – revised Range: 2.9 to 3.5 percent Median: 3.3 percent SAAR	Tuesday, 12/6	Q3 prelim = +3.1%	Up at an annualized rate of 3.4 percent, faster than initially estimated. Revised data from the GDP accounts show real output in the nonfarm business sector grew at an annual clip of 3.7 percent in Q3, faster than initially estimated. This will lead to an upward revision in labor productivity growth. But, no, it doesn't herald a new "productivity miracle" – even with the upward revision to the Q3 data the underlying trend rate of productivity growth, as measured by the 8-quarter moving average, would still be just 0.4 percent. We're no experts in this sort of thing, but this just doesn't strike us as the stuff of which miracles are made, and, oh by the way, Q3's pace of productivity growth is nowhere near being sustainable.
Q3 Unit Labor Costs – revised Range: 0.0 to 1.2 percent Median: 0.2 percent SAAR	Tuesday, 12/6	Q3 prelim = +0.3%	Up at an annualized rate of 0.1 percent. If productivity is revised higher as we expect, that will also mean a downward revision to unit labor costs. Our call would leave the underlying trend rate of growth in unit labor costs at 2.4 percent, pretty much in line with other measures of trends in labor costs.
October Factory Orders Range: 2.0 to 3.9 percent Median: 2.6 percent	Tuesday, 12/6	Sep = +0.3%	Up by 2.2 percent thanks to a jump in orders for durable goods. While aircraft orders lifted durable goods orders (oh come on, you knew that was coming) ex-transportation orders also posted a solid gain. Orders for core capital goods notched another advance in October, making it four of the past five months with rising orders. We expect this to translate into a gain in business investment in equipment and machinery in the Q4 GDP data, ending a string of four consecutive quarterly declines. To be sure, core capital goods orders are not soaring at lofty levels, but at least they're off the ground, and we hold out some hope for better business capital spending in 2017 on the prospect of meaningful tax and regulatory reform.

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