ECONOMIC PREVIEW

REGIONS

Week of May 2, 2016

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%	As a general rule, when the GDP data and the employment data tell different stories, go with the employment data as they are more reliable. The dichotomy between the two can be reconciled, to a large degree, by the data on labor productivity. One way around anemic trend productivity growth is for firms to take on more workers, and still repressed wage growth gives firms the incentive to do so. At some point firms have the incentive to push for greater productivity growth but, in this cycle, we're just not at that point yet on a widespread basis.
April ISM Manufacturing Index Range: 49.0 to 52.5 percent Median: 51.5 percent	Monday, 5/2	Mar = 51.8%	Down to 50.6 percent. We thought March's increase to be a bit overdone, nor was it supported by other data points (durable goods orders, industrial production). That said, we think the headline index will nonetheless remain above the 50 percent break between expansion and contraction in the factory sector.
March Construction Spending Range: -1.5 to 1.0 percent Median: 0.5 percent	Monday, 5/2	Feb = -0.5%	Up by 0.7 percent.
Q1 Nonfarm Labor Productivity Range: -2.4 to -0.3 percent Median: -1.4 percent SAAR	Wednesday, 5/4	Q4 = -2.2%	Down at an annualized rate of 2.4 percent. Real output in the nonfarm business sector rose at an uninspired annual rate of 0.45 percent in Q1, while aggregate hours worked rose at a much faster rate (though, as we often note, hours worked by the self-employed are always the wild card in the productivity data). The net result will be another decline in labor productivity. Our call would leave the 8-quarter moving average, our proxy for the underlying trend, at an anemic 0.4 percent. Some are prone to brush this off as a measurement issue, which we do not totally discount, but we've argued the primary cause of anemic productivity growth is underinvestment on the part of firms over the course of this expansion.
Q1 Unit Labor Costs Range: 1.2 to 4.6 percent Median: 2.9 percent SAAR	Wednesday, 5/4	Q4 = +3.3%	Up at an annualized rate of 4.2 percent. This is simply the flip side of the decline in productivity, but unit labor costs would be rising at an even faster rate if hourly compensation costs were rising at a more normal pace.
March Trade Balance Range: -$48.7 to -$40.0 billion Median: -$42.5 billion	Wednesday, 5/4	Feb = -$47.1 billion	Narrowing to -$41.4 billion. In general a smaller trade gap would be welcome but, in this case, maybe not so much. Advance data show U.S. exports of goods fell in March, which is clearly not welcome, but imports of goods into the U.S. fell even further. What isn't clear is whether the decline in imports reflects dwindling spending by U.S. consumers and businesses or is more a reflection of firms further managing down inventories. In short, while we look for the trade gap to be significantly smaller, we're not sure what that would tell us.
March Factory Orders Range: 0.0 to 2.0 percent Median: 0.6 percent	Wednesday, 5/4	Feb = -1.7%	Up by 0.5 percent.
April ISM Non-Manufacturing Index Range: 53.0 to 55.6 percent Median: 54.7 percent	Wednesday, 5/4	Mar = 54.5%	Down to 53.8 percent.
April Nonfarm Employment Range: 166,000 to 250,000 jobs Median: 203,000 jobs	Friday, 5/6	Mar = +215,000	Up by 204,000 jobs with private payrolls up by 196,000 jobs and government payrolls up by 8,000 jobs. We'll be closely watching the hiring diffusion index, which in recent months has shown a narrower breadth of private sector hiring.
April Manufacturing Employment Range: -14,000 to 22,000 jobs Median: -5,000 jobs	Friday, 5/6	Mar = -29,000	Up by 6,000 jobs. Manufacturing payrolls have been pummeled in recent months, and the hiring diffusion index for manufacturing has slipped to a level last seen during the 2007-09 recession. We're looking for modest payback in April.
April Average Weekly Hours Range: 34.4 to 34.5 hours Median: 34.5 hours	Friday, 5/6	Mar = 34.4 hrs	Up to 34.5 hours. We're looking for a more favorable mix of jobs between the goods producing and service providing industries to have pushed the average workweek up one-tenth of an hour. If this is not the case, growth in aggregate private sector earnings will be slower than we anticipate (see below).
April Average Hourly Earnings Range: 0.1 to 0.4 percent Median: 0.3 percent	Friday, 5/6	Mar = +0.3%	Up by 0.2 percent which translates into a 2.3 percent year-on-year increase. Along with our calls on job gains and hours worked, this would mean a 0.7 percent increase aggregate private sector earnings (4.6 percent year-over-year).
April Unemployment Rate Range: 4.8 to 5.1 percent Median: 5.0 percent	Friday, 5/6	Mar = 5.0%	Unchanged at 5.0 percent. Recent months have seen a sharp increase in labor force participation, which we expect to have continued in April, hence our forecast for the jobless rate to remain steady.

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