ECONOMIC PREVIEW

REGIONS

Week of October 3, 2016

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on November 1-2):* Target Range Midpoint: 0.375 to 0.625 percent Median Target Range Midpoint: 0.375 percent		0.375%	Here's hoping the September employment report (see below) will bring some much needed clarity. As to what happened in August, that is. Historically, the initial estimate for job growth in the month of August has seen sizeable revisions, mostly but not always to the good, so that's the first thing to look for in this week's report. Additionally, we saw several instances of seasonal adjustment noise distorting the August data, including labor force participation amongst younger adults, average weekly hours, average hourly earnings, and government sector payrolls. This leaves two potential paths – either we'll see revisions to the August data go well beyond the headline job growth number, or there will be payback in the September data that will further cloud the view of the labor market. As is always the case with the economic data, the key will be to sort through these issues and focus on the underlying trends, and there are two key trends we're most focused on. First, the pace of job growth has slowed some but nonetheless remains healthy. Second, despite this healthy job growth, what had been a steady decline in the number of people working part-time for economic reasons has ground to a virtual halt in 2016, which affirms there is more slack remaining in the labor market than implied by the headline unemployment rate.
September ISM Manufacturing Index Range: 49.0 to 51.0 percent Median: 50.2 percent	Monday, 10/3	Aug = 49.4%	Up to 50.2 percent. Sharp declines in production and new orders dragged the index under the 50 percent break between contraction and expansion in August. Rebounds in these two components should push the headline index back above 50.0 percent for September. Our worry, however, is we won't see even the modest improvement we've built into our forecast, which would raise new concerns over the health of the factory sector.
August Construction Spending Range: -0.5 to 0.5 percent Median: 0.3 percent	Monday, 10/3	Jul = 0.0%	Up by 0.4 percent.
August Trade Balance Range: -\$44.0 to -\$38.8 billion Median: -\$40.0 billion	Wednesday, 10/5	Jul = -\$39.5 bil	Narrowing to -\$39.2 billion. Not to tarnish anyone's highly informed, factually based, and carefully reasoned political rhetoric, but stronger growth in exports tells us trade is shaping up to be a meaningful support for Q3 real GDP growth.
August Factory Orders Range: -0.6 to 0.4 percent Median: -0.2 percent	Wednesday, 10/5	Jul = +1.9%	Up by 0.2 percent on an increase in orders for nondurable goods as durable goods orders were flat. While recent increases in core capital goods orders are mildly encouraging, core capital goods shipments have continued to decline. As it is shipments, not orders, that enter into the GDP data, this means business investment in equipment will once again be a drag on real GDP growth in Q3.
Sep. ISM Manufacturing Index Range: 51.9 to 54.5 percent Median: 53.0 percent	Wednesday, 10/5	Aug = 51.4%	Up to 52.8 percent.
September Nonfarm Employment Range: 140,000 to 200,000 jobs Median: 174,000 jobs	Friday, 10/7	Aug = +151,000	Up by 172,000 jobs with private payrolls up by 184,000 jobs and government payrolls down by 12,000 jobs. The possibility of large revisions to the August data introduces some play into our forecast for September. In general, though, we expect some payback for what we see as a high degree of seasonal noise in estimates of government payrolls over the past few months, and also expect a solid gain in payrolls amongst private sector service providing industries.
September Manufacturing Employment Range: -7,000 to 10,000 jobs Median: 0 jobs	Friday, 10/7	Aug = -14,000	Up by 4,000 jobs.
September Average Weekly Hours Range: 34.3 to 34.4 hours Median: 34.4 hours	Friday, 10/7	Aug = 34.3 hrs	Up to 34.4 hours. August's decline in average weekly hours could have been mostly noise or something more ominous. We saw it as more the former than the latter, but if that decline did not reverse in September we'll have to reconsider.
September Average Hourly Earnings Range: 0.2 to 0.3 percent Median: 0.2 percent	Friday, 10/7	Aug = +0.1%	Up by 0.3 percent, for an over-the-year increase of 2.6 percent. Along with our calls on employment and hours, this would leave aggregate private sector earnings up 0.7 percent (up 4.3 percent year-on-year).
September Unemployment Rate Range: 4.8 to 4.9 percent Median: 4.9 percent	Friday, 10/7	Aug = 4.9%	Unchanged at 4.9 percent. There could be some noise in the household data stemming from younger adults leaving the labor force and returning to school. A smaller than normal number did so in August so to the extent there is payback in the September data the seasonal adjustment factors won't fully account for it.

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