ECONOMIC PREVIEW

Week of August 7, 2017

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 19-20 FOMC meeting):* Target Range Midpoint: 1.125 to 1.125 percent Median Target Range Midpoint: 1.125 percent	1.125%	Even if somewhat overstated in the seasonally adjusted data, July saw another solid gain in nonfarm employment while the unemployment rate fell to 4.3 percent. Still, wage growth has not meaningfully accelerated, suggesting the jobless rate consistent with full employment is lower than many, including the FOMC, have assumed. Our view has all along been that there is much more labor market slack than implied by the jobless rate. Nothing we've seen thus far tells us we're incorrect on this point.
Q2 Nonfarm Labor Productivity Wednesday, 8/9 Range: 0.1 to 1.5 percent Median: 0.7 percent SAAR	Q1 = 0.0% SAAR	Up at an annualized rate of 0.4 percent. Another miserable print on labor productivity growth, but there is some good news – revisions to the GDP data suggest the prior estimate of zero productivity growth in Q1 should get revised up . . . to 0.1 percent growth (annualized, of course). That doesn't make anyone feel any better, but in terms of the productivity data, the threshold for news qualifying as "good" is pretty low. In Q2, real nonfarm business output rose at an annualized rate of 3.4 percent, the fastest growth since Q1 2015, but aggregate private sector hours worked rose just under a 3.0 percent annualized rate, and accounting for the jump in hours worked by the self-employed further waters down growth in labor productivity. Our forecast would put the 8-quarter moving average, our preferred gauge of the trend rate of productivity growth, at 0.6 percent. Even if we allow for a few tenths of a point to capture measurement issues in the productivity data, when combined with similarly slow labor force growth, this leaves the economy's "speed limit" (or, sustainable rate of noninflationary growth) hovering around 1.5 percent. There are many implications of this, none of them good. We have no doubt that at some point tighter labor market conditions will lead firms to place greater emphasis on upgrading their capital stocks than they thus far have, which will fuel faster productivity growth. The problem is that none of this happens quickly, meaning it will be some time before we see a sustained increase in the rate of labor productivity growth.
Q2 Unit Labor Costs Wednesday, 8/9 Range: 0.5 to 2.0 percent Median: 1.5 percent SAAR	Q1 = +2.2% SAAR	Up at an annualized rate of 1.6 percent, as slower growth in hourly compensation dampens the increase in unit labor costs. Our forecast would leave the 8-quarter moving average rate of growth in unit labor costs at 1.5 percent.
July PPI – Final Demand Thursday, 8/10 Range: 0.0 to 0.2 percent Median: 0.1 percent	Jun = +0.1%	Up by 0.2 percent, for a year-on-year increase of 2.3 percent.
July Core PPI Thursday, 8/10 Range: 0.1 to 0.3 percent Median: 0.2 percent	Jun = +0.1%	Up by 0.2 percent, which translates into a 2.1 percent year-over-year increase.
July Consumer Price Index Friday, 8/11 Range: 0.1 to 0.2 percent Median: 0.2 percent	Jun = 0.0%	Up by 0.1 percent, but it's a close call as our forecast came out at 0.146 and we rounded down, not up. Either way, the July data won't do much to settle the "transitory or structural" debate over the recent slowdown in inflation. Our forecast works out to a year-on-year increase of 1.8 percent. Gasoline will be marginally additive to the headline CPI, and we look for a modest increase in food prices. We look for a smaller increase in medical care costs than June's 0.4 percent increase and expect apparel prices to end a string of monthly declines, but lower vehicle prices will be a drag. We do expect a modest increase in the education & communication category to signal that the declines in prices for cell phone service plans, which have indeed acted as a drag on inflation over recent months, have run their course.
July Core Consumer Price Index Friday, 8/11 Range: 0.1 to 0.2 percent Median: 0.2 percent	Jun = 0.1%	Up by 0.1 percent, for a year-on-year increase of 1.7 percent. Rents pose an upside risk to our forecast, as our forecast anticipates smaller increases in market rents and owners' equivalent rents than seen in June. If we're wrong on this then the core CPI will likely be up 0.2 percent. One trend that has escaped broader notice but to us is very striking is the ongoing deceleration in non-shelter core services inflation, which has been running at 0.6 percent over recent months after having peaked at 1.6 percent in early 2016. Presumably, service providers have far more pricing power than producers of goods, but the inflation data suggest otherwise. This simply highlights the extent to which rents remain far and away the main support for core inflation. We look for the July data to show a modest increase in core goods prices, but our forecast would nonetheless leave core goods prices down year-on-year for the 51st time in the past 52 months. Even if our forecast proves too light and the core CPI comes in at 0.2 percent, this would still leave core CPI inflation comfortably (or, perhaps uncomfortably if you're the FOMC) below 2.0 percent, with the core PCE deflator, the FOMC's preferred gauge of inflation, even further below.

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