ECONOMIC PREVIEW

REGIONS

Week of September 4, 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%	It is an inescapable reality that the fallout from Hurricane Harvey will impact an array of economic indicators, in many cases sharply so. Beginning with the September data, reads on nonfarm employment, industrial production, consumer spending/retail sales, residential construction, and inflation, among others, will be skewed by the impacts of the storm and subsequent rebuilding. As is invariably the case with large-scale disasters, there is no shortage of those who skip the destruction and go straight to the rebuilding to conclude that Hurricane Harvey will be "good for growth." Good grief. Part of the problem is that the primary manner in which we measure the economy, i.e., the GDP data, will capture the rebuilding but not so much the destruction of some portion of the capital stock and the hit to household wealth amongst those households not made whole through insurance, which in this instance could be significant. Neither will the GDP data capture the uninsured losses from business interruptions, lost wages, and the loss of those small businesses that won't come back. A high degree of volatility in the economic data over coming months will not have a lasting impact, and could mask the underlying momentum the U.S. economy carried into the second half of the year. What all of us should be mindful of, however, is that while we can debate and assess the economic costs and impacts, the human costs of Hurricane Harvey are in many ways immeasurable but are of far more significance.
July Factory Orders Tuesday, 9/5 Range: -4.4 to -2.8 percent Median: -3.2 percent	Jun = +3.0%	Down by 3.3 percent. We know from the advance report on durable goods orders that a sharp decline in civilian aircraft orders grounded July's headline orders number. Of far more significance, however, is that the details beneath the headline number are solid, with core capital goods orders up smartly in July and on an uptrend over the past several months. This suggests we will see further growth in business investment in equipment and machinery in the Q3 GDP data, though the better than 8.0 percent (annualized) growth posted in Q2 is by no means a sustainable pace.
July Trade Balance Wednesday, 9/6 Range: -\$44.9 to -\$43.9 billion Median: -\$44.6 billion	Jun = -\$43.6 billion	Widening to -\$44.6 billion. The advance report on trade in goods showed exports and imports declining in July, the former more so than the latter, yielding a wider deficit in the goods account. We look for a wider deficit in the services account as well.
August ISM Non-Manufacturing Index Wednesday, 9/6 Range: 54.0 to 56.5 percent Median: 55.4 percent	Jul = 53.9%	Up to 55.5 percent.
Q2 Nonfarm Labor Productivity (rev.) Thursday, 9/7 Range: 0.9 to 1.7 percent Median: 1.2 percent SAAR	Q2 prelim = 0.9% SAAR	Up at an annualized rate of 1.6 percent. As part of the upward revision to Q2 GDP, real output in the nonfarm business sector is now reported to have grown at an annualized rate of 4.02 percent, compared to the initial estimate of 3.39 percent. Assuming no significant changes to the initial estimate of hours worked, this should push measured Q2 labor productivity growth up to an annualized rate of 1.6 percent. Our forecast would leave productivity growth up over 1.0 percent year-on-year for a second consecutive quarter, and we look for a similar increase in Q3. That this feels more like a productivity miracle than simply inching towards historical norms is a testament to how anemic productivity growth has been over the course of this expansion. While we will need to see more evidence that the feels more like a miracle than it actually is productivity growth of recent quarters will be sustained (the 8-quarter moving average would still be at just 0.5 percent if our forecast is on the mark), we are nonetheless encouraged by what has been healthy growth in business investment spending over the past several months. We have argued that the current expansion has been characterized by significant underinvestment on the part of firms and that this in turn has acted as a material drag on productivity growth. As such, the recent upturn in business investment, which we expect will be sustained, is encouraging from a longer-term growth perspective, as faster productivity growth is a necessary condition for a faster trend rate of real GDP growth.
Q2 Unit Labor Costs (rev.) Thursday, 9/7 Range: -0.1 to 0.6 percent Median: 0.4 percent SAAR	Q2 prelim = 0.6% SAAR	Up at an annualized rate of 0.1 percent. Based on the income data from the GDP accounts, there should have been only modest revisions to labor compensation costs in the productivity data. As such, if productivity growth is revised higher as we expect, unit labor costs (i.e., the labor costs of producing each unit of output) should be revised lower. Our forecast would leave unit labor costs down year-on-year, and would leave the longer-term trend rate of growth at under 1.0 percent. In theory, faster productivity growth should allow for faster wage growth without sparking broader inflation pressures, but that faster wage growth has yet to materialize.

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