ECONOMIC PREVIEW

REGIONS

Week of May 28, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 12-13 FOMC meeting):* Target Range Midpoint: 1.875 to 1.875 percent Median Target Range Midpoint: 1.875 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	The minutes of the May 1-2 FOMC meeting were, on balance, a bit more dovish than had been anticipated. Perhaps the most striking portion of minutes was the discussion of labor market conditions. While some members expressed concern about rapid acceleration in wage growth, others played down the notion of broad based wage pressures and allowed for a greater positive supply response acting as a brake on wage growth. Additionally, there was discussion of how a period of inflation overshooting the FOMC's (symmetric) 2.0 percent target could be helpful in anchoring inflation expectations. In short, nothing in the minutes suggests the FOMC is looking for a reason to step up the pace of Fed funds rate hikes.
May Consumer Confidence Tuesday, 5/29 Range: 125.0 to 130.0 Median: 128.0	Apr = 128.7	Down to 126.4. Consumer confidence has been known to fall (rise) as gasoline prices rise (fall), and we think rising gasoline prices will have tempered consumer confidence in May. Still, as long as consumers maintain a favorable take on labor market conditions, that will put a floor under consumer confidence.
April Advance Trade Balance: Goods Wednesday, 5/30 Range: -$72.5 to -$68.0 billion Median: -$71.1 billion	Mar = -$68.3 billion	Widening to -$70.3 billion.
Q1 Real GDP – 2nd estimate Wednesday, 5/30 Range: 2.1 to 2.5 percent Median: 2.3 percent SAAR	Q1 1st est. = +2.3% SAAR	Up at an annualized rate of 2.2 percent. As is common between the first and second estimates of GDP in any given quarter, there will be numerous changes in the details of the Q1 GDP data, but we expect these changes to be fairly small and for the most part to cancel each other out. We expect consumer spending on goods to have been revised slightly higher, but with spending on services less than initially estimated, revisions to consumer spending will basically be a wash. We expect the revised data to show less of a contribution from inventories than had first been estimated, slightly less residential construction, and a smaller drag from trade. Add it all up and we're left with a modest downgrade to top-line Q1 growth.
Q1 GDP Price Index – 2nd estimate Wednesday, 5/30 Range: 2.0 to 2.0 percent Median: 2.0 percent SAAR	Q1 1st est. = +2.0% SAAR	Up at an annualized rate of 2.0 percent.
April Personal Income Thursday, 5/31 Range: 0.1 to 0.5 percent Median: 0.3 percent	Mar = +0.3%	Up by 0.4 percent. We look for a larger increase in private sector wage and salary earnings than implied by the April employment report, another healthy increase in small business profits, and stronger growth in investment income to support growth in total personal income. Our forecast would leave total personal income up 3.9 percent year-on-year, with private sector labor earnings up 4.8 percent. What remains solid, and easily ahead of inflation, growth in aggregate labor earnings will likely be overlooked once again as many are unable to see the forest for the trees due to their focus on average hourly earnings, which is but one of the three components of aggregate labor earnings.
April Personal Spending Thursday, 5/31 Range: 0.2 to 0.5 percent Median: 0.4 percent	Mar = +0.4%	Up by 0.4 percent. We look for spending on goods to have firmed after a soft showing in March and a expect trend-like increase in services spending. Growth in real consumer spending was neither as strong as the Q4 2017 data implied nor as weak as the Q1 2018 data implied, with trend growth lying in between the two. Current quarter growth will be more in line with that underlying trend rate, and the steady growth in aggregate labor earnings noted above will ensure consumer spending remains a key driver of real GDP growth over coming quarters.
April PCE Deflator Thursday, 5/31 Range: 0.2 to 0.3 percent Median: 0.2 percent	Mar = 0.0%	Up by 0.2 percent, for a year-on-year increase of 2.0 percent. We look for the core PCE deflator to be up by 0.1 percent, leaving it up 1.8 percent year-on-year. Core PCE inflation should top the 2.0 percent mark in the June data but is unlikely to push high enough over the remainder of this year to breach the FOMC's tolerance for inflation overshooting their symmetric 2.0 percent target.
May ISM Manufacturing Index Friday, 6/1 Range: 56.6 to 60.0 percent Median: 58.1 percent	Apr = 57.3%	Up to 58.7 percent, marking the 21st consecutive month in which the ISM index is above the 50.0 percent break between contraction and expansion. Beneath the headline index our interest will lie in the details on prices paid for non-labor inputs, order backlogs, and supplier delivery times. The data over recent months have shown growing backlogs of unfilled orders and increased delivery bottlenecks, which are signs that the manufacturing sector is being stretched. In conjunction with what remains strong growth in new orders, these signs point to further increases in capital spending and employment over coming months.

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April Construction Spending Range: 0.5 to 2.0 percent Median: 0.9 percent	Friday, 6/1	Mar = -1.7%	Up by 1.2 percent. The data on construction spending are highly volatile all on their own with no outside help, but a weather-induced collapse in spending on residential improvements tanked the March data, for which there should be payback in April.
May Nonfarm Employment Range: 160,000 to 218,000 jobs Median: 190,000 jobs	Friday, 6/1	Apr = +168,000	Up by 218,000 jobs with private payrolls up by 212,000 jobs and government payrolls up by 6,000 jobs. The April employment report fell shy of expectations on many counts, but atypically harsh "winter" weather and an early April survey week had a lot to do with that. As such, we expect at least some payback in the May data, though May too had an early survey week. Our forecast would leave monthly job growth in line with the pace seen over the past 12 months. Aside from job growth, we'll also be watching the hiring diffusion index, a measure of the breadth of hiring across private sector industry groups. Broad based hiring has been one of the hallmarks of the current expansion, but the one-month hiring diffusion index is down sharply over the past two months so we'll be looking to the May data for any signs of a rebound.
May Manufacturing Employment Range: 10,000 to 25,000 jobs Median: 20,000 jobs	Friday, 6/1	Apr = +24,000	Up by 22,000 jobs.
May Average Weekly Hours Range: 34.5 to 34.5 hours Median: 34.5 hours	Friday, 6/1	Apr = 34.5 hours	Unchanged at 34.5 hours. The length of the workweek remains below where it would be were firms more intent on adding labor input. We had thought April might see the length of the workweek tick up by one-tenth of an hour but this did not happen, in part because harsh weather held down hours worked. We think the mix of jobs added in May will keep the length of the workweek steady at 34.5 hours, but also think that we'll see a longer workweek in the not too distant future. If this seems a small point, keep in mind that each one-tenth of an hour change in the average length of the workweek is equivalent to over 300,000 private sector jobs.
May Average Hourly Earnings Range: 0.1 to 0.3 percent Median: 0.3 percent	Friday, 6/1	Apr = +0.1%	Up by 0.1 percent (up 2.6 percent year-on-year). As was the case in April, the 15th of May fell outside of the reference week for the BLS's establishment survey, which tends to bias measured average hourly earnings lower. Hence, we look for another middling increase in hourly earnings in the May data which will tell us nothing meaningful about the degree of labor market slack. As we routinely note, however, growth in aggregate wage and salary earnings is of far more relevance as a gauge of growth in labor costs and as a driver of growth in consumer spending. Our calls on employment, hours worked, and hourly earnings will yield a 0.3 percent increase in aggregate wage and salary earnings, leaving them up 4.8 percent year-on-year.
May Unemployment Rate Range: 3.8 to 4.0 percent Median: 3.9 percent	Friday, 6/1	Apr = 3.9%	Unchanged at 3.9 percent. One possible hitch in the household survey data for May and June revolves around the annual influx of summer job seekers, with the timing of this influx highly dependent on the timing of the school year. This is most visible in the not seasonally adjusted data on participation amongst 16-to-19 year-olds. For instance, last year the number of 16-to-19 year-olds in the labor force increased by a net 1.481 million persons for the May-June period, but fewer than 10 percent of this group entered the labor force in May, a far smaller share than the 24.1 percent average over the prior four years. Such swings in timing can throw off the seasonal adjustment factors, and if of a sufficient magnitude can easily swing the rounded unemployment rate up or down by one-tenth of a percent. Just another one of those pesky beneath-the-headline details we track so that you don't have to.

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