ECONOMIC PREVIEW

REGIONS

Week of July 30, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July31-August1 FOMC meeting):* Target Range Midpoint: 1.875 to 1.875 percent Median Target Range Midpoint: 1.875 percent	Range: 1.75% to 2.00% Midpoint: 1.875%	With no change in the Fed funds rate target range on tap and no post-meeting press conference, our main interest in this week's FOMC meeting is whether the Committee will begin the discussion on the "terminal" level of the Fed's balance sheet. We won't know this until the minutes of the meeting come out in three weeks, but it's about time this discussion moves from the abstract to the concrete.
Q2 Employment Cost Index Tuesday, 7/31 Range: 0.6 to 0.7 percent Median: 0.7 percent	Q1 = +0.8%	<u>Up</u> by 0.6 percent, with the <u>wages</u> component <u>up</u> 0.6 percent and the <u>benefits</u> component <u>up</u> 0.5 percent. The 0.9 percent increase in the ECI's measure of wages in Q1 was the largest since Q1 2007, but we look for wage growth to have moderated in Q2. Our forecast would leave the total ECI up 2.8 percent year-on-year, with wage costs up 2.8 percent and benefit costs up 2.6 percent. The ECI is the best measure of changes in labor costs, and shows wage costs accelerating at a steady pace.
June Personal Income Tuesday, 7/31 Range: 0.3 to 0.5 percent Median: 0.4 percent	May = +0.4%	<u>Up</u> by 0.3 percent. The proxy for private sector wage and salary earnings in the June employment report points to only a modest increase despite another month of robust job growth, which will weigh on growth in total personal income. We look for proprietors' income, rental income, and dividends to be supports for top-line income growth. Our forecast would leave total personal income up 4.3 percent year-on-year.
June Personal Spending Tuesday, 7/31 Range: 0.3 to 0.6 percent Median: 0.4 percent	May = +0.2%	<u>Up</u> by 0.5 percent.
June PCE Deflator Tuesday, 7/31 Range: 0.1 to 0.1 percent Median: 0.1 percent	May = +0.2%	<u>Up</u> by 0.1 percent, which yields a year-on-year increase of 2.4 percent. We look for the <u>core PCE deflator</u> to be <u>up</u> by 0.2 percent, which would leave it up 2.0 percent year-on-year.
July Consumer Confidence Tuesday, 7/31 Range: 124.5 to 130.0 Median: 126.0	Jun = 126.4	<u>Up</u> to 127.8
July ISM Manufacturing Index Wednesday, 8/1 Range: 57.5 to 59.9 percent Median: 59.2 percent	Jun = 60.2%	<u>Down</u> to 59.6 percent. Slower supplier delivery times – the sub-index for supplier delivery times jumped to its highest level since May 2004 – alone added over one point to the headline index in June. Our forecast anticipates some giveback in the July data (though this is a source of uncertainty in our forecast), with the indexes for production, new orders, and employment remaining elevated. All in all, despite what we expect will be a drop in the headline index, the ISM data will point to continued robust expansion in the manufacturing sector. Aside from the data, we will be monitoring comments from survey respondents for their take on the effects of tariffs and rising costs of non-labor inputs, two spots of bother for the manufacturing sector.
June Construction Spending Wednesday, 8/1 Range: -0.3 to 0.5 percent Median: 0.3 percent	May = +0.4%	<u>Up</u> by 0.3 percent.
June Factory Orders Thursday, 8/2 Range: 0.2 to 2.3 percent Median: 0.7 percent	May = +0.4%	<u>Up</u> by 0.4 percent. The advance data on durable goods orders show a much smaller than anticipated 1.0 percent increase as a significant spike in unit orders for non-defense aircraft went largely uncaptured in the dollar volume of orders. Lower crude oil prices in June will have weighed on orders for nondurable goods, and the net result is a rather pedestrian increase in top-line orders. But, as we routinely note, the one number that really matters here is core capital goods orders, which posted a solid increase in June (up 0.6 percent in the preliminary data). While perhaps not constituting a "boom," the marked acceleration in growth of business investment that began in 2017 has been sustained thus far in 2018.
July ISM Non-Manufacturing Index Friday, 8/3 Range: 58.0 to 60.0 percent Median: 58.8 percent	Jun = 59.1%	<u>Down</u> to 58.6 percent.
June Trade Balance Friday, 8/3 Range: -$-47.5 to -$43.0 billion Median: -$46.2 billion	May = -$43.1billion	<u>Widening</u> to -$46.8 billion. As expected, the preliminary data show a drop in U.S. exports in June, but the increase in imports was smaller than we had anticipated given reports from many ports of record or near-record imports in June. So, either the deficit in the goods account will be revised higher in the final data for June or the July data will show further widening in the deficit in the goods account. Either way, these swings in activity are far more a reflection of firms, domestic and foreign, playing "time the tariffs" than they are of swings in the economic fundamentals.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
July Nonfarm Employment Range: 154,000 to 210,000 jobs Median: 190,000 jobs	Friday, 8/3	Jun = +213,000	Up by 188,000 jobs, with private sector payrolls up by 184,000 jobs and public sector payrolls up by 4,000 jobs. While our forecast anticipates a slower pace of job growth than seen in May and June, job growth nonetheless remained solid in July. We look for job growth amongst the goods producing industries to have shifted into a slightly slower gear (though, admittedly, this poses upside risk to our forecast) with a trend-like increase in hiring amongst private sector service providing industries. One thing in the establishment survey data that has caught our eye is the drop-off in response rates to the establishment survey. In each month so far this year, the initial response rate to the BLS's monthly survey has been lower than that of the same month last year, and the differences are significant (yes, we look deep into the details of the data so you don't have to {of course, you don't want to, probably}). While this could be innocuous in terms of the estimates of monthly job growth, it could also mean that these estimates are vulnerable to larger than normal revision, whether higher or lower, in the annual benchmarking process. We bring this up now because the BLS will release their first estimate of the annual benchmark revision to the establishment survey data on August 22nd.
July Manufacturing Employment Range: 5,000 to 30,000 jobs Median: 20,000 jobs	Friday, 8/3	Jun = +36,000	Up by 24,000 jobs.
July Average Weekly Hours Range: 34.4 to 34.6 hours Median: 34.5 hours	Friday, 8/3	Jun = 34.5 hours	Up to 34.6 hours. We have frequently noted that the length of the workweek remains shorter than it would be were firms facing binding labor supply constraints on a widespread basis, and we refer to the still-short workweek as an underappreciated form of labor market slack. We look for that to change a bit in the July data, with the average length of the workweek ticking up by one-tenth of an hour. We were basically a rounding hour from that in June, held back by a shorter workweek in construction. Seemingly small one-tenth of an hour changes in the length of the average workweek can have large effects on output and earnings (see below), as each one-tenth of an hour change is the equivalent to over 300,000 private sector jobs.
July Average Hourly Earnings Range: 0.2 to 0.4 percent Median: 0.3 percent	Friday, 8/3	Jun = +0.2%	Up by 0.2 percent, for a year-on-year increase of 2.7 percent. The survey week fell early in July, i.e., ended before the 15th of the month, which in the past has tended to bias the estimate of average hourly earnings lower. Our forecast assumes this to have been the case in the July data, but the risk to our forecast is to the upside, i.e., hourly earnings growth will be stronger than our forecast anticipates. Our calls on employment, hours worked, and hourly earnings would yield a 0.7 percent increase in aggregate private sector earnings, good for a year-on-year increase of 5.2 percent (note that if the workweek remained steady at 34.5 hours the increase in aggregate private sector earnings would be only 0.4 percent).
July Unemployment Rate Range: 3.9 to 4.0 percent Median: 3.9 percent	Friday, 8/3	Jun = 4.0%	Unchanged at 4.0 percent. Recall that the household survey data showed a 601,000 person increase in the labor force in June, which pulled the unemployment rate up to 4.0 percent. We did not, and still don't, see that June number as being plausible, and certainly do not expect a similar increase in the July data. We look for a trend-like increase in household employment to keep the jobless rate steady, though if we do see a reversal of June's outsized increase in the labor force it would likely push the jobless rate lower.

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Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com