ECONOMIC PREVIEW

REGIONS

Week of June 4, 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%	Despite being shortened by the Memorial Day holiday, there was a whole lot of hectic packed into last week. While our reaction to the week – "man, what a week" – wasn't all that uncommon, it's generally never a good sign when you get to that point on a Wednesday afternoon, which is how long it took us to get there. That said, despite all of the alarming headlines and all of the volatility in the financial markets and all of the tariff talk, the main takeaway from last week is that the U.S. growth story hasn't changed. In all honesty, that sounded more like wishful thinking than anything else last Tuesday as equity prices and yields on U.S. Treasury securities took a synchronized tumble that for a time felt like there was no bottom under it. There was, of course, and the very next day market participants were feeling better, if not about the world in general then at least about Europe. By the end of the week, the April data on consumer spending, the May employment report, and the May ISM Manufacturing Index combined to serve as a useful and timely reminder that the outlook for U.S. economic growth has not changed. Growth in Q2 consumer spending got off to a solid start with a larger than expected 0.4 percent increase in real personal spending. The April data on consumer spending affirm our view that Q2 growth in consumer spending will be more in line with the underlying trend rate than was the case in either Q4 2017 or Q1 2018. The May ISM Manufacturing Index shows the U.S. manufacturing sector remains on quite a roll fueled by robust growth in demand, both domestic and foreign. Indeed, the details of the ISM data show manufacturers struggling to keep pace with growth in demand, as backlogs of unfilled orders continue to grow, and even suppliers to manufacturers are having trouble keeping pace, as evidenced by further slowing in supplier delivery times. Those are good problems to have. Finally, the May employment report shows the labor market remains solid. Nonfarm payrolls rose by 223,000 jobs in May, but what we find most heartening is that hiring remains exceptionally broad based across private sector industry groups this deep into the expansion. One question that came up frequently last week was how the political and financial turbulence would impact the FOMC's thinking on monetary policy. Our answer, even on last Tuesday, was that all of that turbulence would not make the FOMC go slower but would keep them, at least for now, from going faster, than they have signaled. Sure, Europe will remain prone to political risk that will generate some market rattling headlines, and tariffs loom as a threat to growth. But, for now, we remain comfortable with our call of real GDP growth of around 3.0 percent for 2018.
April Factory Orders Monday, 6/4 Range: -1.0 to -0.1 percent Median: -0.6 percent	Mar = +1.6%	Down by 0.4 percent which simply reflects what was a sizeable decline in civilian aircraft orders. Highlighted by a sizeable increase in orders for core capital goods, the details of the April report will be much better than the headline number.
May ISM Non-Manufacturing Index Tuesday, 6/5 Range: 57.0 to 58.5 percent Median: 57.5 percent	Apr = 56.8%	Up to 57.6 percent.
April Trade Balance Wednesday, 6/6 Range: -\$52.5 to -\$47.6 billion Median: -\$49.0 billion	Mar = -\$49.0 billion	Narrowing to -\$48.6 billion thanks mainly to a smaller deficit in the goods account. After having been a neutral factor in Q1, trade is on course to add to top-line real GDP growth in Q2. The obvious caveat, however, is that mounting tensions over trade policy pose a risk to what has been a nice run of growth in U.S. exports.
Q1 Nonfarm Productivity (revised) Wednesday, 6/6 Range: 0.3 to 0.8 percent Median: 0.7 percent SAAR	Q1 1st est. = +0.7% SAAR	Up at an annualized rate of 0.6 percent. Growth in real output in the nonfarm business sector was revised slightly lower, which we expect to nudge the estimate of Q1 labor productivity growth lower. Though we have over the years been pessimists on the productivity front, and have been very vocal in our views, we have become more constructive on the outlook for productivity growth, and a weak Q1 print does not alter our view. To be sure, while we don't foresee a redux of the "productivity miracle" of 1996-2005, when annual productivity growth averaged 3.0 percent, we do see further upside potential for the trend rate of productivity growth, which has soared, okay, fine, limped back over the 1.0 percent mark. Recent patterns in business investment, particularly spending on software and R&D, suggest further acceleration in labor productivity growth over coming quarters.
Q1 Unit Labor Costs (revised) Wednesday, 6/6 Range: 2.8 to 3.0 percent Median: 2.8 percent SAAR	Q1 1st est. = +2.7% SAAR	Up at an annualized rate of 2.9 percent. Along with what we expect to be a slight downward revision to productivity growth, an upward revision to labor compensation should push growth in unit labor costs ahead of the initial estimate.

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