ECONOMIC PREVIEW REGIONS
Week of December 3, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the December 18-19 FOMC meeting):* Target Range Midpoint: 2.375 to 2.375 percent Median Target Range Midpoint: 2.375 percent	Range: 2.00% to 2.25% Midpoint: 2.125%	It's a classic case of "he said-they heard," with "he" in this case being Fed Chairman Powell and "they" being financial market participants. What he said, in a speech at The Economic Club of New York, was that the Fed funds rate is "just below the broad range of estimates of the level that would be neutral for the economy." What they heard, at least judging by how equity prices jumped once Chairman Powell's comments hit the ticker, was "we're just below neutral, so we'll be stopping soon." One reason Chairman Powell's comments stood out so much is that they marked quite a change from his October 3 statement that "we're a long way from neutral, probably." Or did they? While we don't think so, many market participants had a different take, hence the spirited rally in equity prices. Indeed, many have pegged Chairman Powell's October 3 comments as the catalyst for October's steep declines in equity prices, though we think this is way off base. To be sure, those comments raised concerns that the FOMC may go too far too fast in raising the funds rate, but those concerns were simply added to what were already growing concerns over the sustainability of growth in corporate profits. In each instance Chairman Powell may have thought he was simply stating the obvious, and to us he was. After all, as of the September 2018 edition of the FOMC's "dot plot," the range of estimates of "neutral" is 2.50-to-3.50 percent, so, at present, the funds rate is just below the bottom of that range but a long way from the top of that range (we believe Chairman Powell's dot resides closer to the top of that range than to the bottom). "Obvious," however, tends to be a fluid concept in the financial markets. Going forward, don't be surprised to see more of these "he/she said-they heard" episodes. With the FOMC looking, perhaps as early as their December meeting, to move away from forward guidance in the post-meeting policy statements, every public comment by every FOMC member will be given extra scrutiny, but will also be wide open to interpretation, which could lead to added market volatility.
November ISM Manufacturing Index Monday, 12/3 Range: 56.5 to 59.5 percent Median: 57.5 percent	Oct = 57.7%	Up to 58.1 percent, though our degree of confidence in our forecast is lower than is normally the case with this series. The top-line index fell to a six-month low in October as the components for new orders and current production tumbled. What is unclear, however, is whether those declines simply reflected manufacturing activity settling into a more sustainable pace, or whether they marked the beginning of a meaningful deceleration in manufacturing activity. The latter cannot be ruled out given the degree to which uncertainty over trade policy is weighing on survey respondents. Our forecast anticipates partial rebounds in new orders and current production, but if those do not materialize, our forecast will be too high. Another spot where our forecast is vulnerable is supplier delivery times – while our forecast anticipates some modest easing in supply backlogs, this component can swing sharply from one month to the next which, given that supplier delivery times account for one-fifth of the total index, can easily skew the headline number.
October Construction Spending Monday, 12/3 Range: 0.0 to 0.8 percent Median: 0.4 percent	Sep = 0.0%	Up by 0.5 percent.
Q3 Nonfarm Productivity (2nd est.) Wednesday, 12/5 Range: 2.2 to 2.8 percent Median: 2.3 percent SAAR	Q3 1st est. = +2.2% SAAR	Up at an annualized rate of 2.6 percent. At 4.1 percent, annualized growth in real output in the nonfarm business sector is unchanged from the initial estimate but the monthly employment reports tell us there should be ("should" being the operative word here in the often mystical world of productivity data) a downward revision to aggregate hours worked. This would yield a faster rate of Q3 productivity growth than initially estimated. Even with the BLS's initial Q3 estimate, growth in labor productivity has slowly, but steadily, picked up over recent quarters, and it is simply not possible to overstate how critical it is that this be sustained, given the implications for wage growth, corporate profit margins, and monetary policy. This is why any signs that capital spending is faltering (see Page 2 – Factory Orders) would take on added significance, as R & D outlays and spending on equipment & machinery are key drivers of labor productivity growth. While a repeat of the "productivity miracle" of 1996-2005 is unlikely, we simply have to do better than the anemic pace of productivity growth that has prevailed over much of the current economic expansion.
Q3 Unit Labor Costs (2nd est.) Wednesday, 12/5 Range: 0.8 to 1.2 percent Median: 1.0 percent SAAR	Q3 1st est. = +1.2% SAAR	Up at an annualized rate of 0.9 percent. The flip side of our forecast of an upward revision to productivity growth is a downward revision to growth in unit labor costs. The downward revision to growth in hourly compensation our forecast anticipates would also contribute to slower growth in unit labor costs.

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Nov. ISM Non-Manufacturing Index Wednesday, 12/5 Range: 58.5 to 60.5 percent Median: 59.2 percent	Oct = 60.3%	Down to 59.2 percent, consistent with broad based expansion outside of the factory sector. Thanks to tumbling oil prices, however, we do see the mining sector posing some downside risk to our forecast.
October Trade Balance Thursday, 12/6 Range: -$55.4 to -$53.0 billion Median: -$54.9 billion	Sep = -$54.0 billion	Widening to -$55.1 billion. Over the past two quarters, the trade deficit has: narrowed sharply, adding 1.22 percentage points to top-line real GDP growth in Q2; then widened significantly, deducting 1.91 percentage points from top-line real GDP growth in Q3. These swings reflected firms, domestic and foreign, accelerating orders in anticipation of tariffs being imposed by the U.S. and retaliatory tariffs being imposed by foreign nations. While we had anticipated trade would be a neutral-to-slightly supportive factor for Q4 growth, the prospect of higher, and wider reaching, tariffs on imports from China as of January 1, 2019 means many U.S. retailers are still front-loading orders and shipments. This is supporting further growth in imports into the U.S. as slowing global growth is trimming demand for U.S. exports. We expect these dynamics to be reflected in a wider trade gap in October.
October Factory Orders Thursday, 12/6 Range: -2.5 to -1.6 percent Median: -2.0 percent	Sep = +0.3%	Down by 2.4 percent. Durable goods orders fell sharply in October thanks to sizeable declines in aircraft orders, both defense and non-defense. Of more significance is that the advance data were not kind to core capital goods orders, a/k/a the single most important number in the report on factory orders in any given month. Growth in business investment slowed in Q3, but this followed what was notably faster growth over the prior six quarters. The question becomes whether the slower growth seen in Q3 is a sign of things to come or whether it reflected growth in business investment transitioning into a more sustainable pace. Our view is that the latter is the case, even as the October data test our resolve.
November Nonfarm Employment Friday, 12/7 Range: 175,000 to 230,000 jobs Median: 200,000 jobs	Oct = +250,000	Up by 208,000 jobs, with private sector payrolls up by 204,000 jobs and public sector payrolls up by 4,000 jobs. Estimates of job growth in September and October were swayed by hurricanes, Florence and Michael, and while this week's report may show revisions to those estimates, the estimate of November job growth should be fairly clean. We'll be interested in the estimates of (not seasonally adjusted) hiring in retail trade and warehousing/delivery operations, as an indicator of retailers' expectations (hopes?) for holiday season sales. Our forecast would leave trend job growth at better than 200,000 per month over the past 12 months, an extraordinary pace for an expansion in its tenth year.
November Manufacturing Employment Friday, 12/7 Range: 10,000 to 25,000 jobs Median: 20,000 jobs	Oct = +32,000	Up by 23,000 jobs.
November Average Weekly Hours Friday, 12/7 Range: 34.4 to 34.5 hours Median: 34.5 hours	Oct = 34.5 hours	Unchanged at 34.5 hours.
November Average Hourly Earnings Friday, 12/7 Range: 0.1 to 0.4 percent Median: 0.3 percent	Oct = +0.2%	Up by 0.4 percent, for a year-on-year increase of 3.2 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.5 percent increase in aggregate private sector wage and salary earnings, leaving them up 5.3 percent year-on-year.
November Unemployment Rate Friday, 12/7 Range: 3.6 to 3.7 percent Median: 3.7 percent	Oct = 3.7%	Unchanged at 3.7 percent.

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