ECONOMIC PREVIEW

REGIONS

Week of July 1, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 30-31 FOMC meeting):* Target Range Midpoint: 2.375 to 2.375 percent Median Target Range Midpoint: 2.375 percent	Range: 2.25% to 2.50% Midpoint: 2.375%	All economic data releases are important, but some economic data releases are more important than others. Along those lines, the June employment report and the two June ISM surveys are not only the most important data releases of this holiday-shortened week but may be the most important data releases of the month. We still don't know what to make of the surprisingly weak May employment report, i.e., whether it was an outlier or whether it marked the start of something more ominous. We think it is more the former than the latter, but ask us again on Friday. We'd argue that of the two ISM surveys to be released this week, the non-manufacturing survey is more important than the manufacturing survey. That the manufacturing sector has softened has already been established, and at this point the more pertinent question is whether, or to what extent, that has spilled over into the broader economy. Indeed, in his press conference following last month's FOMC meeting, Chairman Powell specifically pointed to continued expansion in the services sector as a sign that the broader economy is still on firm footing, and we expect the June ISM Non-Manufacturing Index to show this remains the case. These three data releases will go a long way towards determining the timing of a Fed funds rate cut. Contrary to many financial market participants, we do not see a Fed funds rate cut as a done deal at the July FOMC meeting, but, as we said above, ask us again on Friday.
June ISM Manufacturing Index Monday, 7/1 Range: 50.0 to 53.0 percent Median: 51.1 percent	May = 52.1%	Down to 50.8 percent. The regional manufacturing surveys ranged from frightening to so-so, which isn't all that inspiring of a lead-in to the June ISM Manufacturing Index. While we expect the headline index to remain above the 50.0 percent between expansion and contraction, we'll be more interested in whether the new orders index does the same. Faster supplier delivery times pose a downside risk to our forecast.
May Construction Spending Monday, 7/1 Range: -0.5 to 0.6 percent Median: 0.2 percent	Apr = 0.0%	Up by 0.5 percent.
May Trade Balance Wednesday, 7/3 Range: -\$54.6 to -\$49.0 billion Median: -\$53.5 billion	Apr = -\$50.8 billion	Widening to -\$54.4 billion. The advance data on trade in goods show large increases in both exports and imports, perhaps as a hedge against the possibility of expanded tariffs taking effect in June. The net result will be a wider trade deficit, leaving trade on course to be a meaningful drag on Q2 real GDP growth.
June ISM Non-Manufacturing Index Wednesday, 7/3 Range: 54.8 to 56.9 percent Median: 56.0 percent	May = 56.9%	Down to 55.7 percent, but nonetheless consistent with further expansion in the services sector. As noted above, this release will be one indicator of whether, or to what extent, the effects of trade tensions have spilled over into the broader economy.
May Factory Orders Wednesday, 7/3 Range: -1.0 to 0.5 percent Median: -0.5 percent	Apr = -0.8%	Down by 0.8 percent, dragged down by sharply lower orders for civilian aircraft. While the modest increase in orders for core capital goods reported in the advance data is encouraging, business investment still faces some stiff headwinds over the back half of 2019, posing a downside risk to our real GDP growth forecast.
June Nonfarm Employment Friday, 7/5 Range: 130,000 to 193,000 jobs Median: 165,000 jobs	May = +75,000 jobs	Up by 193,000 jobs, with private sector payrolls up by 174,000 jobs and public sector payrolls up by 19,000 jobs. The not seasonally adjusted data for May show weaker than normal hiring in construction and leisure & hospitality services. We expect payback in the June data, which helps account for our above-consensus call on top-line job growth. In addition to the headline job growth number for June, watch for revisions to the initial May estimate, the hiring diffusion index (which showed a much narrower base of job growth in May), hiring in transportation and warehousing (if it persists, softer hiring of late in this industry group would be a troubling sign), and public sector payrolls (the details of the May data were, well, peculiar, and the June data should bring signs of hiring for the 2020 Census). While we've expected all along that the pace of job growth would slow as 2019 wore on, we believe the initial May data significantly overstate the extent to which job growth has slowed. The June data will go a long way towards proving us right or proving us wrong.
June Manufacturing Employment Friday, 7/5 Range: -5,000 to 5,000 jobs Median: 0 jobs	May = +3,000 jobs	Up by 2,000 jobs.
June Average Weekly Hours Friday, 7/5 Range: 34.4 to 34.5 hours Median: 34.4 hours	May = 34.4 hours	Up to 34.5 hours. We think the mix of job growth, including stronger job hiring amongst the goods producing industries than was the case in May (a net gain of only 8,000 jobs), will push average weekly hours higher. This in turn has big implications for growth in aggregate wage and salary earnings (see Page 2).

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June Average Hourly Earnings Range: 0.2 to 0.4 percent Median: 0.3 percent	Friday, 7/5	May = +0.2%	Up by 0.3 percent, for a year-on-year increase of 3.2 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.8 percent increase in aggregate private sector wage and salary earnings, leaving them up 5.0 percent year-on-year. If we are wrong on our call on average weekly hours, however, growth in aggregate wage and salary earnings will be slower than our forecast anticipates. This matters because while average hourly earnings seem to get all of the attention, it is actually aggregate wage and salary earnings that matter in terms of growth in total personal income and growth in consumer spending. For more than a year now, year-on-year growth in aggregate wage and salary earnings has averaged better than 5.0 percent, far ahead of inflation and a key support for growth in consumer spending.
June Unemployment Rate Range: 3.6 to 3.7 percent Median: 3.6 percent	Friday, 7/5	May = 3.6%	Up to 3.7 percent. The Conference Board's monthly report on consumer confidence includes questions on how consumers see labor market conditions, and the spread between those who see jobs as plentiful and those who see jobs as hard to get has long been a useful indicator of changes in the unemployment rate. This spread had been hovering at a nearly two-decade high before narrowing considerably in June, and this is one reason we look for the jobless rate to tick higher. Also, keep in mind that the labor force data for the month of June in any given year are prone to sharp swings stemming from inflows of summer job seekers (mainly students on summer break). The magnitude of these flows varies from year to year, making it hard to properly seasonally adjust the data, and we suspect we could see a sizable increase in the labor force in the June data. This helps account for our expectation that the unemployment rate will tick up.

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