ECONOMIC PREVIEW

REGIONS

Week of March 30, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the April 28-29 FOMC meeting):* Target Range Mid-point: 0.000 to 0.125 percent Median Target Range Mid-point: 0.125 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	In the week ending March 21, 3.283 million people filed claims for Unemployment Insurance benefits. As if this number isn't stunning enough, it is surely understated and will be revised higher. Either way, the claims data bring up a useful point to keep in mind as we begin to get the top-tier economic data for the month of March. For most series, the cut-off point for data collection comes well before the end of the month. Given that shutdowns in economic activity became increasingly widespread as March wore on, we suspect that the March data will not fully capture the deterioration in economic conditions that took place later in the month. This "timing effect" will color the March data on retail sales, consumer confidence, and residential construction, among others, and will clearly impact the March employment report (see Page 2). To be sure, the data for April will more fully capture the impact of the coronavirus, so it may seem pointless to fret about this timing issue. But, to the extent the March data feed into the estimate of Q1 GDP, this means that Q1 GDP may look less bad and that Q2 GDP may look worse than many are expecting, and this serves as a general caveat when taking in the data for the months of March and April.
March Consumer Confidence Tuesday, 3/31 Range: 95.0 to 120.0 Median: 114.8	Feb = 130.7	Down to 116.2, but it is important to keep in mind that the cut-off for the Conference Board's survey is typically around the middle of any given month. As such, the print on their March report will likely understate the deterioration in consumer confidence that weekly and daily measures show accelerated as the month wore on.
March ISM Manufacturing Index Wednesday, 4/1 Range: 40.0 to 47.0 percent Median: 45.0 percent	Feb = 50.1%	Down to 46.0 percent. While the ISM surveys may not be as impacted by the timing issue noted above, that doesn't mean they will be issue free. Impaired supply chains have resulted in much slower supplier delivery times, which works to push the ISM's headline indexes (both manufacturing and non-manufacturing) higher. The premise is that slower delivery times are a sign of greater demand and, as such, are seen as a positive in the ISM indexes, but the measure of supplier delivery times makes no distinction between stronger demand and impaired supply chains. As such, while we expect both of the ISM's indexes to have slipped below the 50.0 percent line in March, we think the declines will be tempered by slower supplier delivery times. If we're wrong on this point, our forecasts of the manufacturing and the non-manufacturing indexes will be too high, which is not exactly an uplifting thought.
February Construction Spending Wednesday, 4/1 Range: -0.5 to 1.1 percent Median: 0.6 percent	Jan = +1.8%	Up by 1.1 percent, but the February data do not pick up any halts in activity brought about by the coronavirus which, to our point above, may take until the April data to fully see.
February Trade Balance Thursday, 4/2 Range: -$45.0 to -$39.0 billion Median: -$40.0 billion	Jan = -$45.3 billion	Narrowing to -$40.9 billion. The advance data on trade in goods show the deficit in the goods account narrowed sharply in February, though to a lesser extent than we anticipated given the drop-off in traffic at the ports of Los Angeles and Long Beach. That said, we look for the final data to show a smaller surplus in the services account. Foreign travel to the U.S. dropped sharply in February, reflecting the spread of the coronavirus abroad, which in the trade data should be reflected as a decline in exports of services. While there was a drop-off in U.S. residents traveling abroad (which would be reflected as a decline in imports of services), that came later and we do not expect it to be fully picked up in the February data. If we are correct on this point, that will limit the degree to which the overall trade deficit narrowed in February.
February Factory Orders Thursday, 4/2 Range: -1.5 to 0.6 percent Median: 0.2 percent	Jan = -0.5%	Up by 0.3 percent. From the advance data on durable goods orders, we know that a spike in defense aircraft orders pushed total durable goods orders higher, thus wrong-footing our forecast of a sharp decline. At the same time, however, core capital goods orders, always the most important single number in the durable goods data, fell more sharply than our forecast anticipated. We expect the final data to show a decline in orders for nondurable goods negated much of the increase in durable goods orders, leaving total orders only marginally higher.
March ISM Non-Manufacturing Index Friday, 4/3 Range: 40.0 to 54.0 percent Median: 46.0 percent	Feb = 57.3%	Down to 44.3 percent. Keep in mind that service providers were amongst the first industry groups hit by the fallout from the coronavirus, and have been amongst the hardest hit. Though the extent to which that will be picked up in the March survey is unclear, our forecast would nonetheless mark the largest monthly decline in the history of this index. Aside from the headline number, we'll watch for the number of industry groups reporting growth in March – recall that in the February survey, 16 of the 18 industry groups reported growth. The extent to which that number drops in the March survey will be a telling sign of how rapidly economic activity came screeching to a halt due to the spread of the coronavirus.

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
March Nonfarm Employment Range: -1,250,000 to 100,000 jobs Median: -100,000 jobs	Friday, 4/3	Feb = +273,000 jobs	Up by 51,000 jobs, with private sector payrolls up by 22,000 jobs and public sector payrolls up by 29,000 jobs. Though we expect the March employment report to be weak, that has more to do with payback for job growth having been so strong in January and February than it does with the effects of the coronavirus. Recall that in January and February, atypically warm weather meant that not seasonally adjusted employment in weather sensitive industries, including construction and leisure & hospitality services, was stronger than normal for those months, leading to outsized job gains in the seasonally adjusted data. We estimate that weather effects boosted seasonally adjusted job growth by over 120,000 jobs for the two-month period. The flip side of that, however, is that hiring in March (not seasonally adjusted) will have been weaker than is typical for the month, with this weakness in the raw data made even more pronounced by seasonal adjustment. So, even before accounting for the effects of the coronavirus, we expected private nonfarm payrolls to have risen by fewer than 100,000 jobs in March, though hiring related to the 2020 Census would provide some offset. As March wore on and economic activity abruptly slowed, millions of workers were laid off, but the question here is the extent to which these layoffs will be captured in the March employment report. The staggering number – 3.283 million – of initial claims for Unemployment Insurance for the week ending March 21 came after the BLS's establishment survey week (the week ending March 14). Initial claims did rise by 71,000 during the survey week, which should at least to some degree be accounted for in the March employment report. Our sense, however, is that the response rate for the March establishment survey could be very low, as in the midst of the chaos many firms simply may not have responded. If so, the gap to be filled by BLS estimates will be larger than normal, thus injecting even more noise into the March payroll data. In short, we won't be surprised by whatever headline number sits atop the March employment report, but whatever that headline number is won't mean all that much. It will not be until the April employment report, due on May 8, that we get a fuller picture of the damage done to the labor market by the coronavirus.
March Manufacturing Employment Range: -145,000 to -10,000 jobs Median: -20,000 jobs	Friday, 4/3	Feb = +15,000 jobs	Down by 9,000 jobs.
March Average Weekly Hours Range: 32.0 to 34.4 hours Median: 34.0 hours	Friday, 4/3	Feb = 34.4 hours	Down to 34.1 hours. As demand began to weaken, the first step taken by many firms was to cut back on hours worked rather than laying off workers, though many firms ultimately shifted course and resorted to layoffs.
March Average Hourly Earnings Range: 0.0 to 0.4 percent Median: 0.2 percent	Friday, 4/3	Feb = +0.3%	Up by 0.2 percent, for a year-on-year increase of 3.0 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.6 percent decline in aggregate private sector wage and salary earnings, leaving them up 3.4 percent year-on-year.
March Unemployment Rate Range: 3.5 to 6.4 percent Median: 3.8 percent	Friday, 4/3	Feb = 3.5%	Up to 3.7 percent. The timing of the layoffs seen during the month is only one factor that will determine the impact on the March unemployment rate, the other being the extent to which those laid off began actively looking for work. Keep in mind that in order to be counted as being in the labor force, those without jobs must be either on layoff awaiting recall or be actively looking for work. Given the speed with which layoffs occurred as March wore on and the extent to which greater portions of the U.S. were effectively under lockdowns, we think it highly unlikely that many of those who were laid off were actively looking for work. If we are correct on this point, it would greatly mitigate any increase in the U3 unemployment rate in March. In contrast, the broader U6 rate, which accounts for both underemployment and for "discouraged" workers, i.e., those who want a job but are not actively looking because they think no jobs are available, will be a better early indicator, particularly as the U6 measure accounts for those working but who had their hours reduced to part-time status as firms responded to the spread of the virus. Initial claims for Unemployment Insurance are likely to remain elevated in coming weeks, and the April unemployment rate will more fully reflect the wave of layoffs that began over the back half or March.

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