ECONOMIC PREVIEW

REGIONS

Week of May 4, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 9-10 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%	A wise friend once noted that it's amazing how something you know is coming can still shock you. That's about as succinctly as we can telegraph what's coming in the April employment report (see below and Page 2). While there's been no shortage of dire forecasts of late, the actual numbers are bound to be somewhat of a shock.
March Factory Orders Monday, 5/4 Range: -14.4 to -7.0 percent Median: 9.7 percent	Feb = 0.0%	Down by 10.1 percent.
March Trade Balance Tuesday, 5/5 Range: -\$46.0 to -\$35.4 billion Median: -\$44.1 billion	Feb = -\$39.9 billion	Widening to -\$44.7 billion. We know from the advance report on trade in goods that the deficit in the goods account widened in March, as the decline in exports was much larger than the decline in imports. Our forecast anticipates a modestly smaller surplus in the services account will also contribute to a larger overall trade deficit.
April ISM Non-Manufacturing Index Tuesday, 5/5 Range: 31.1 to 48.7 percent Median: 37.7 percent	Mar = 52.5%	Down to 41.7 percent. In the ISM's manufacturing survey, the details were far worse than the headline index, thanks to a quirk involving supplier delivery times. This will also be the case in the non-manufacturing survey. As always, focus on the details.
Q1 Nonfarm Labor Productivity Thursday, 5/7 Range: -7.0 to -1.0 percent Median: -5.2 percent SAAR	Q4 = +1.2% SAAR	Down at an annualized rate of 5.2 percent. Real output in the nonfarm business sector contracted at an annualized rate of 6.2 percent in Q1, exceeding the contraction in top-line real GDP. Our forecast anticipates aggregate hours worked posted a modest decline in Q1, with a small increase in hours worked amongst those workers covered by the establishment survey offset by a significant decline in hours worked amongst the self-employed, The obvious caveat here is that the derivation of aggregate hours worked in the productivity data is one of life's great mysteries which, to use highly technical terms, means that the decline in nonfarm labor productivity could be way bigger or way smaller than our forecast anticipates.
Q1 Unit Labor Costs Thursday, 5/7 Range: -6.5 to 10.7 percent Median: 2.1 percent SAAR	Q4 = +0.9% SAAR	Up at an annualized rate of 6.4 percent, though this is much more about the decline in labor productivity than it is about growth in labor compensation costs. Recall that unit labor costs measure the labor cost of producing each unit of output, so a decline in productivity such as that anticipated by our forecast implies a much higher labor cost per unit. While hourly labor costs did rise at a slightly faster pace in Q1, the expected increase in unit labor costs greatly overstates the case.
April Nonfarm Employment Friday, 5/8 Range: -30,000,000 to -840,000 jobs Median: -21,2500,000 jobs	Mar = -701,000 jobs	Down by 22,545,000 jobs, with private sector payrolls down by 21,710,000 jobs and public sector payrolls down by 835,000 jobs. It's hard to even know how to follow that sentence, and if upon reading it you did a double take, or even a triple take, that's understandable. We'd suggest forgetting about the specific numbers in anyone's forecast, including ours, because none of us has any reasonable way of forecasting "the" number given all of the variables in play. That does not at all alter the broader point, which is that the decline in nonfarm employment in April will be significantly larger than any of us could have ever imagined two months ago. To help put it in context, the decline in nonfarm employment in April will have negated most, if not all, of the more than 22 million jobs added over the course of what was the longest economic expansion in U.S. history, which came to an abrupt halt in March. Whatever the headline April job loss number turns out to be, it will likely be revised considerably in the months ahead thanks to a host of methodological issues. First and foremost, with so much of the economy shuttered, the response rate will be notably low, thus increasing the magnitude of the sampling error associated with the BLS's estimate of the change in payroll employment. In the March establishment survey, the response rate was only 66.3 percent, well below the average March response rate of 75.7 percent over the prior ten years. The April response rate will be much lower, to the point that it may challenge the 31.4 percent rate in February 1983 as the lowest on record. A further challenge comes from BLS not knowing whether those establishments not responding to their survey are closed temporarily or have shut down for good, which has a bearing on the extent to which the BLS's birth-death model, which accounts for establishments either coming into existence or closing for good during any given sample period, is relied upon to fill in the gaps in the survey. Other methodological issues will come into play as, like other data series, the BLS's establishment survey is simply not equipped to deal with changes as large and as abrupt as those the U.S. economy has endured of late. Any methodological issues, however, will take a back seat to the shock that will come in the form of the headline job loss number on the April employment report.

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Indicator/Action Economics Survey:	Last Actual:	Regions' View:
April Manufacturing Employment Friday, 5/8 Range: -5,000,000 to 17,000 jobs Median: -2,385,000 jobs	Mar = -18,000 jobs	Down by 3,600,000 jobs.
April Average Weekly Hours Friday, 5/8 Range: 31.0 to 34.2 hours Median: 33.5 hours	Mar = 34.2 hours	Down to 33.8 hours. Many of those still with jobs have seen their hours cut, and while this does not impact job counts, it has a significant impact on aggregate labor earnings, the largest single component of personal income. Additionally, with each one-tenth of an hour change in the average length of the workweek equivalent to over 300,000 jobs in terms of the economy's productive capacity, a shorter workweek will significantly compound the effects of what will be a massive decline in nonfarm employment in April. While the discussion around what most expect will be a major contraction – an annualized decline of between 30 and 40 percent – in real GDP in Q2 tends to focus on the demand side of the economy, the labor market math on aggregate hours worked allows us to see that from the supply side of the economy. Sure, either way it's not a pretty picture, but, as the economy begins to recover, it will be the supply side that tells the real story of the progress being made.
April Average Hourly Earnings Friday, 5/8 Range: -1.2 to 6.0 percent Median: 0.4 percent	Mar = +0.4%	Up by 1.6 percent, for a year-on-year increase of 4.6 percent. If our forecast on wage growth seems at odds with our forecasts on employment and hours, keep in mind that average hourly earnings accounts for the mix of jobs across industry groups. While no industry group may have been spared, job losses are likely to have been much heavier across lower-wage industry groups, such as leisure & hospitality services, retail trade, and personal services, and less so amongst higher-wage industry groups such as construction, utilities, information services, and finance. If so, the larger proportionate job losses amongst lower-wage industry groups will push up the overall average hourly wage. That said, even if we are correct on this point, the increase in average hourly earnings will be no match for the declines in nonfarm payrolls and average weekly hours. As such, our calls on job growth, hours worked, and hourly earnings would yield a 16.5 percent decline in aggregate private sector wage and salary earnings, leaving them down 13.8 percent year-on-year.
April Unemployment Rate Friday, 5/8 Range: 11.6 to 22.0 percent Median: 16.0 percent	Mar = 4.4%	Up to 15.3 percent. The great unknown here is the number of those who have been laid off over the past several weeks who have been actively looking for a new job. Keep in mind that in order to be classified as unemployed, one has to either be on layoff awaiting recall or actively looking for work. With so much of the economy having been shuttered, it is unlikely that a high number of those recently laid off will have been actively looking for work, and those who have not will not be counted as being in the labor force. The higher the number that fall into this camp, the less severe will be the increase in the unemployment rate. To be sure, to the extent firms have signaled that laid off workers will be recalled, these people will still be included in the labor force, and it is reasonable to think the majority of those laid off over recent weeks fall into this camp, but our forecast assumes a large number will not, thus tempering our expectations for the increase in the unemployment rate in April. The reality, however, is none of us know, and this it likely the biggest factor behind the wide range of forecasts of the April unemployment rate. Regardless of what the official print turns out to be, the unemployment rate will be an imperfect gauge of labor market stress. One alternative measure we suggest paying more attention to over coming months is the broader U6 measure, which accounts for those who have had their hours cut from full-time to part-time hours and also for those marginally attached to the labor force, which includes "discouraged workers" who are not looking for a job because they think none are available. It won't surprise us to see the U6 measure pushing up to around 25 percent for April. Another alternative indicator of labor market stress to follow more closely is the employment-to-population ratio, which is free of the "are they or are they not included in the labor force?" noise. The ratio fell from 61.1 percent in February to 60.0 percent in March, but our expectations for April job losses would push the ratio to an all-time low – the current record low is 54.9 percent in October 1949 (the data go back to 1948).

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