ECONOMIC PREVIEW

REGIONS

Week of November 2, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 4-5 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%	Between the election and a busy week for economic data releases, capped off by the October employment report (see Page 2), this week's FOMC meeting may get lost in the shuffle, though with no change in their policy stance and no updated economic and financial projections, this week's FOMC meeting already figured to be a fairly quiet affair. But, while no such change is on tap for this week's meeting, we think it a matter of when, not whether, the FOMC will deem it appropriate to make changes in their asset-purchase program, with Treasury securities being given a heavier weighting and a greater emphasis on purchases of longer-dated Treasury securities. This is a topic that will surely be discussed at this week's meeting, meaning that the minutes of the meeting, to be released on November 25, are likely to be of more interest to market participants than anything we hear from the Committee this week.
October ISM Manufacturing Index Monday, 10/2 Range: 54.1 to 57.0 percent Median: 55.8 percent	Sep = 55.4%	Up to 56.4 percent. Our forecast anticipates little change in the indexes measuring new orders and current production, though the risks seem to the downside, as these indexes have been at rather lofty levels over recent months and figure to ease back at some point. We look for supplier delivery times to have slowed further, which will provide support for the headline index. We also look for a further build in inventories and for the employment index to finally push above the 50.0 percent mark, lining up with the steady increase in manufacturing payrolls reported by the BLS. One detail to keep an eye on is the index of unfilled orders. Though this index does not figure into the calculation of the headline index, it is worth watching, as it has pointed to growing backlogs of unfilled orders over recent months. This could help reconcile the split in the data on factory orders, which have grown strongly over recent months, and the data on industrial production, which show manufacturing output has rebounded but remains far below the pre-pandemic level. It could be that changes in work processes have hampered growth in manufacturing output, meaning it is taking producers longer to fill orders. To the extent this is the case, as long as new orders continue to expand, backlogs of unfilled orders could continue to grow.
September Construction Spending Monday, 10/2 Range: 0.4 to 1.5 percent Median: 0.9 percent	Aug = +1.4%	Up by 0.1 percent. The BEA's initial estimate of Q3 GDP assumed a significant decline in non-residential construction in September. If this proves to be the case it would largely neutralize further growth in residential construction. The September data on construction and trade (see below) will be the first pieces of data that will shape the revisions to the BEA's initial estimate of Q3 GDP.
September Factory Orders Tuesday, 11/3 Range: 0.3 to 1.7 percent Median: 0.9 percent	Aug = +0.7%	Up by 1.2 percent, with a big increase in orders for durable goods more than offsetting what we expect will be a decline in orders for nondurable goods.
September Trade Balance: Goods Wednesday, 11/4 Range: -$70.3 to -$60.3 billion Median: -$64.7 billion	Aug = -$67.1 billion	Narrowing to -$63.2 billion. The advance data show the deficit in the goods account surprisingly narrowed in September, reflecting a spike in exports of food products (soybeans) and softer than expected imports. When combined with what our forecast anticipates will be a slightly larger surplus in the services account, the result will be a smaller overall trade deficit.
October ISM Non-Manufacturing Index Wednesday, 11/4 Range: 55.8 to 58.6 percent Median: 57.5 percent	Sep = 57.8%	Down to 57.6 percent.
Q3 Nonfarm Labor Productivity Thursday, 10/5 Range: 3.0 to 15.0 percent Median: 4.7 percent SAAR	Q2 = +10.1% SAAR	Up at an annualized rate of 11.2 percent. We know from the GDP data that real output in the nonfarm business sector grew at an annualized rate of 43.5 percent in Q3, and we know from the monthly employment reports that aggregate hours worked by private sector workers on nonfarm payrolls rose at a 28.2 percent rate, while hours worked by the self-employed rose at a 75.2 percent rate. What we do not yet know are the changes in hours worked by government sector workers and by unpaid family members. What we really do not know is how the BLS melds all of these components together to come up with the aggregate hours worked metric in the productivity data. So, a larger (smaller) increase in aggregate hours worked than our forecast anticipates would yield slower (faster) Q3 productivity growth than our forecast anticipates.
Q3 Unit Labor Costs Thursday, 10/5 Range: -19.4 to 2.0 percent Median: -9.7 percent SAAR	Q2 = +9.0% SAAR	Down at an annualized rate of 14.4 percent. To the extent there is play in our forecast of productivity growth, that carries into our forecast of the change in unit labor costs (or, the labor cost of each unit of output produced). Should productivity growth be slower (faster) than our forecast anticipates, the decline in unit labor costs will be smaller (larger) than our forecast anticipates.

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Indicator/Action Economics Survey:	Last Actual:	Regions' View:
October Nonfarm Employment Friday, 11/6 Range: 393,000 to 900,000 jobs Median: 588,000 jobs	Sep = +661,000 jobs	Up by 393,000 jobs, with private sector payrolls up by 569,000 jobs and public sector payrolls down by 176,000 jobs thanks in part to over 147,000 temporary Census jobs running off the books. The September employment report was riddled with seasonal adjustment noise, and we look for that to be the case, perhaps to an even greater degree, with the October report. As we have noted, what in past years had been usual seasonal patterns in economic activity have this year been disrupted by the pandemic, wreaking havoc on much of the economic data. The leisure and hospitality services industry group is a case in point. On a not seasonally adjusted basis, employment in this industry group fell by 107,000 jobs in September, but the seasonally adjusted data show an increase of 318,000 jobs. The issue is that the decline in unadjusted payrolls was much smaller than the typical September decline, when the end of the summer vacation season and younger workers returning to school lead to significant declines in leisure and hospitality services payrolls. This year, however, firms in this industry group were still trying to "normalize" payrolls in the face of ongoing curbs on activity after having been shut down earlier in the year. Given the level of employment, a "normal" decline in unadjusted payrolls this September would have been around 380,000 jobs, which is what the seasonal adjustment factors were geared up for, hence the significant disparity between the raw data and the seasonally adjusted estimate of employment in leisure and hospitality services. Sure, that may be way more detail than you'd prefer, but we think it is a useful illustration of an issue we see in an array of data releases, and which will persist through year-end. In the seasonally adjusted October data, we expect another "artificial" boost to the estimates of seasonally adjusted leisure and hospitality service payrolls and, to a much smaller degree, construction employment. At the same time, however, we think seasonal adjustment issues will suppress the estimates of seasonally adjusted employment in retail trade and transportation/delivery operations, as what in a normal year would be the initial bump in holiday season hiring was pulled forward this year. We also expect the estimate of seasonally adjusted employment in state and local government to be biased lower. We may be off on the magnitude of these effects, which would obviously push our forecast of job growth off the mark, but we do expect to see these effects in the data. As such, the October employment report may not provide all that much clarity as to the underlying health of the labor market.
October Manufacturing Employment Friday, 11/6 Range: 35,000 to 59,000 jobs Median: 50,000 jobs	Sep = +66,000 jobs	Up by 52,000 jobs.
October Average Weekly Hours Friday, 11/6 Range: 34.6 to 34.8 hours Median: 34.7 hours	Sep = 34.7 hours	Unchanged at 34.7 hours, though if measured job growth in transportation/delivery and retail trade proves to be stronger than our forecast anticipates, this could pull average weekly hours down by one-tenth of an hour.
October Average Hourly Earnings Friday, 11/6 Range: 0.1 to 0.3 percent Median: 0.2 percent	Sep = +0.1%	Up by 0.2 percent, which would translate into a year-on-year increase of 4.6 percent. Our calls on job growth, hours worked, and hourly earnings yield a 0.7 percent increase in aggregate private sector wage and salary earnings, leaving them down 1.4 percent year-on-year.
October Unemployment Rate Friday, 11/6 Range: 7.0 to 8.0 percent Median: 7.6 percent	Sep = 7.9%	Down to 7.4 percent. There was also a considerable degree of seasonal adjustment noise in the September household survey data – without which the decline in the labor force would have been even larger than that reported. To the extent this was the case, then the October data may show a smaller increase in the labor force than many are looking for, yielding a slightly larger decline in the jobless rate. Either way, we'll be as, if not more, interested in the data on the participation rate and the duration of unemployment. The median duration of unemployment rose to 17.8 weeks in September, and even more disturbing is that roughly 70 percent of those classified as being on temporary layoff had been out of work for at least 15 weeks. What the rapidly rising duration of unemployment suggests is that a growing number of what started out as temporary layoffs are morphing into permanent job losses, which will lead to more longer-term scarring of the labor market, pushing a full recovery that much further out into the future.

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