ECONOMIC PREVIEW

REGIONS

Week of February 1, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 16-17 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%	Unlike some other analysts, and more than a few market participants, at no point did we ever expect the road back to normal for the U.S. economy to be short, straight, or smooth. Still, despite what at times seems like a one step forward-two steps back recovery, we continue to believe that conditions are in place for a meaningful pick-up in the pace of real GDP growth at some point in 2021. The reality, however, is that there is no "stimulus" program anyone could conjure up which would be nearly as effective as a more widespread vaccine distribution program.
January ISM Manufacturing Index Monday, 2/1 Range: 58.2 to 61.5 percent Median: 60.0 percent	Dec = 60.5%	Up to 60.7 percent. Buoyed by solid demand for goods and ongoing inventory restocking, manufacturing activity started 2021 off on a strong note. The rebound in the factory sector has been broad based, which is one reason to think it has further to run. The key indicator to watch on that front is the ISM's gauge of new orders, which we expect to have remained elevated in January. That the manufacturing sector has been spared from the widespread shutdowns seen last spring, however, does not mean it has not been impacted. Changes in work practices and temporary halts for sanitization have impacted productivity, while many manufacturers have been slowed down by absenteeism and increased difficulty in finding new workers, and firms are reporting that their suppliers are being hamstrung by these same constraints. Thus, while the ISM's gauge of production has been elevated, that doesn't necessarily imply a faster rate of output growth, as the ISM's indexes are diffusion indexes. Our sense is that, in addition to continued growth in new orders, less efficient operations, labor supply issues, and impaired supply chains are also contributing to what have been growing backlogs of unfilled orders. The ISM's January survey will help shed some light on whether, or to what extent, these dynamics shifted as 2021 began. Also, keep an eye out for the prices paid index, which gauges changes in input costs and which has indicated rising input prices for seven consecutive months. In December, the prices paid index jumped to 77.6 percent, the highest reading since May 2018, with all 18 industry groups reporting higher input costs. Continued upward pressure on input prices will ultimately make its way to the broader gauges of inflation, which is one reason we and many others look for the pace of inflation to pick up in 2021.
December Construction Spending Monday, 2/1 Range: 0.3 to 1.7 percent Median: 0.8 percent	Nov = +0.9%	Up by 1.4 percent.
January ISM Non-Manufacturing Index Wednesday, 2/3 Range: 55.9 to 58.0 percent Median: 56.8 percent	Dec = 57.7%	Down to 57.5 percent. While the broad services sector has borne the brunt of recent restrictions on activity amid the surge in COVID-19 cases, the effects have been highly concentrated amongst a relatively small group of services industries. This helps account for why the ISM's Non-Manufacturing Index has remained elevated. We expect that to again be the case in January, though a larger decline in the headline index could indicate weakness in services is becoming broader based. Two key details to watch are the new orders index and the number of industry groups reporting growth in January. Additionally, though not to the extent seen in the ISM's survey of the manufacturing sector, the non-manufacturing survey has also indicated growing upward pressure on input prices; we expect this to have remained the case in January.
Q4 Nonfarm Labor Productivity Thursday, 2/4 Range: -5.6 to 3.8 percent Median: -2.9 percent SAAR	Q3 = +4.6% SAAR	Down at an annualized rate of 4.8 percent. Real output in the nonfarm business sector grew at an annualized rate of 5.3 percent in Q4, yet aggregate hours worked grew at a much faster rate. The net result will be a decline in measured labor productivity. Whether the rate of decline is a pronounced as our forecast anticipates will depend on the BLS's measure of hours worked – despite years of trying, attempting to unlock the secrets of the hours worked metric in the productivity data has been a most unproductive endeavor for us.
Q4 Unit Labor Costs Thursday, 2/4 Range: -2.8 to 7.7 percent Median: 3.8 percent SAAR	Q3 = -6.6% SAAR	Up at an annualized rate of 7.1 percent. Unit labor costs, or, the labor cost of producing each unit of output, are the flip side of productivity. As such, if productivity is not as weak as we anticipate, our forecast of growth in unit labor costs will be too high.
December Factory Orders Thursday, 2/4 Range: 0.3 to 1.8 percent Median: 0.7 percent	Nov = +1.0%	Up by 0.9 percent.
December Trade Balance Friday, 2/5 Range: -$71.1 to -$64.9 billion Median: -$65.7 billion	Nov = -$68.1 billion	Narrowing to -$65.3 billion thanks to a smaller deficit in the goods account.

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January Nonfarm Employment Friday, 2/5 Range: -150,000 to 345,000 jobs Median: 50,000 jobs	Dec = -140,000 jobs	Up by 254,000 jobs, with private sector payrolls up by 236,000 jobs and public sector payrolls up by 18,000 jobs. We'll start by noting that the January data incorporate the annual benchmark revisions of the recent historical data, which injects some uncertainty into our forecast of January job growth. Seasonally adjusted estimates of nonfarm employment, hours worked, and average hourly earnings, among other series, going back to January 2016 are subject to revision. While the benchmark revisions don't necessarily result in significant alterations to the patterns of monthly job growth previously reported, they do impact the level of nonfarm employment as of the new reference month, which is now March 2020. The BLS's preliminary estimate points to the level of nonfarm employment as of March 2020 being revised down by around 170,000 jobs. As for the January data, expectations are all over the map, as indicated by the wide range of estimates in the weekly survey. Our forecast is well above the consensus forecast, which doesn't necessarily mean we think the labor market is any healthier than do those with lower expectations for January job growth. Instead, we expect there to be a considerable seasonal adjustment noise in the January data, which will flatter the headline job growth number. For instance, based on the "typical" January decline, not seasonally adjusted payrolls in leisure and hospitality services would have fallen by well over 300,000 jobs last month. But, given that unadjusted payrolls in leisure and hospitality services fell by 513,000 jobs in December – a "typical" December would have seen virtually no change – it seems highly that this January's decline will be anywhere near the typical January decline. As such, we look for the seasonally adjusted data to show leisure and hospitality services added jobs in January. We can point to construction, state and local government, and to a lesser degree retail trade as other sectors in which the seasonally adjusted data will overstate job counts, thus bolstering the headline January job growth number. As such, while it is always important to examine the not seasonally adjusted data in any given data release in any given month, it will be more important to do so with the January labor market data. It helps to remember that, outside of private education services and leisure and hospitality services, hiring was broad based across private sector industry groups in December. We see very little in the body of economic data that would lead us to think that changed to a material degree in January.
January Manufacturing Employment Friday, 2/5 Range: 0 to 50,000 jobs Median: 30,000 jobs	Dec = +38,000 jobs	Up by 32,000 jobs.
January Average Weekly Hours Friday, 2/5 Range: 34.6 to 34.8 hours Median: 34.7 hours	Dec = 34.7 hours	Unchanged at 34.7 hours.
January Average Hourly Earnings Friday, 2/5 Range: -0.4 to 0.4 percent Median: 0.3 percent	Dec = +0.8%	Up by 0.1 percent, which would translate into a year-on-year increase of 5.0 percent. December's jump in average hourly earnings was strictly a mix issue reflecting the severe decline in leisure and hospitality services payrolls, and we expect some correction in the January data. Our calls on job growth, hours worked, and hourly earnings yield a 0.3 percent increase in aggregate private sector wage and salary earnings (down 0.4 percent year-on-year).
January Unemployment Rate Friday, 2/5 Range: 6.5 to 6.9 percent Median: 6.7 percent	Dec = 6.7%	Down to 6.6 percent. Each January, the household survey data incorporate new population controls, meaning the data aren't strictly comparable to those of prior years. In the January data, this can lead to significant level changes in the labor force and household employment which can impact the reported unemployment rate. While in any given year that can make interpreting the January unemployment rate a bit tricky, and this year might be trickier than normal. Labor force participation, already significantly depressed relative to pre-pandemic rates, may have tailed off further in January, and the Conference Board's survey of consumer confidence shows consumers' assessments of labor market conditions deteriorated further in January. In short, our forecast assumes a further easing in labor force participation, but we don't have a high degree of confidence in our call.

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