# ECONOMIC PREVIEW

**REGIONS**

Week of May 3, 2021

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint**<br>*(After the June 15-16 FOMC meeting):*<br>Target Range Mid-point: 0.000 to 0.125 percent<br>Median Target Range Mid-point: 0.125 percent | Range:<br>0.00% to 0.25%<br>Midpoint:<br>0.125% | Data for the month of March consistently beat expectations, setting a high bar as the April data begin to roll in this week. While we expect the overall tone of the April data to remain solid, there are some undercurrents in the data that will merit attention. The ISM's monthly surveys of the manufacturing and services sectors have shown broad based pressure on non-labor input costs over the past few months, and the April surveys are unlikely to show any signs of those pressures subsiding. The April employment report, however, could send a very misleading signal on wage pressures, as we discuss on Page 2. The Q1 Employment Cost Index, a much more reliable gauge of labor costs, showed the largest quarterly increase in wages since Q1 2001. Cost pressures are building and may not be quite as transitory as many are assuming. |
| **April ISM Manufacturing Index** Monday, 5/3<br>Range: 60.4 to 68.0 percent<br>Median: 65.0 percent | Mar = 64.7% | Up to 66.2 percent. The supply chain/logistics bottlenecks that have been plaguing the manufacturing could have a mixed impact on the ISM's headline index. While we expect further increases in the indexes measuring new orders, production, and employment, supply chain issues could act as a drag, thus keeping these indexes below our forecasts. At the same time, slower supplier delivery times directly add to the headline index. Regardless of how all of that nets out, the expansion in the manufacturing sector is notably broad based across industry groups and we think it has further to run, even more so in light of the sizable inventory draw reported in the Q1 GDP data. Though it doesn't figure into the calculation of the headline index, the prices paid index will nonetheless bear watching. The index has been hovering at levels last seen in 2008 and in each of the past four months all 18 of the industry groups in the ISM's survey reported paying higher input prices. Though some tend to downplay any link between input prices and retail level inflation, that input price pressures are so broad based makes it more likely there will be pass-through effects, and with shipping costs rising and labor costs starting to stir, it is reasonable to wonder if inflation pressures may not prove to be all that transitory. |
| **March Construction Spending** Monday, 5/3<br>Range: 0.9 to 3.0 percent<br>Median: 1.7 percent | Feb = -0.8% | Up by 2.3 percent. We look for a vigorous rebound after weather issues held down construction activity in February, with single family construction providing most of the support. |
| **March Trade Balance** Tuesday, 5/4<br>Range: -\$76.0 to -\$70.3 billion<br>Median: -\$74.3 billion | Feb = -\$71.1 billion | Widening to -\$74.9 billion. Exports and imports of goods rebounded smartly after slumping in February, but the net result is a larger deficit in the goods account, and our forecast anticipates a smaller surplus in the services account. |
| **March Factory Orders** Tuesday, 5/4<br>Range: 0.3 to 2.3 percent<br>Median: 1.4 percent | Feb = -0.8% | Up by 1.4 percent. Durable goods orders came in surprisingly soft, but that simply reflected the disconnect between the Census Bureau data and industry data on civilian aircraft orders. In the grand scheme of things, that is irrelevant, but what does matter is that core capital goods orders bounced back in March, resuming the strong upward trend in place prior to February's step back. This bodes well for business investment in equipment and machinery as reported in the GDP data. The new data in this week's release is the volume of orders for nondurable manufacturing goods, which we expect to have rebounded from a modest slip in February. |
| **April ISM Non-Manufacturing Index** Wednesday, 5/5<br>Range: 59.6 to 66.0 percent<br>Median: 64.2 percent | Mar = 63.7% | Up to 65.1 percent, which would replace March's reading as the highest on record in the life of this series. We look for further increases in the business activity index and the new orders index, reflecting further reopening of the economy. As in the ISM's manufacturing survey, we look for slower supplier delivery times to provide a lift to the headline index. In another similarity with the ISM's manufacturing survey, we look for a further increase in the prices paid component. |
| **Q1 Nonfarm Labor Productivity** Thursday, 5/6<br>Range: 2.2 to 7.0 percent<br>Median: 4.2 percent SAAR | Q4 2020 = -4.2% SAAR | Up at an annualized rate of 4.6 percent. Real output in the nonfarm business sector grew at an annualized rate of 8.4 percent in Q1, easily outpacing the increase in real GDP. The mystery in the productivity data comes in the data on aggregate hours worked – the next time we understand the hours worked number reported in the productivity data will be the first time we understand the hours worked number reported in the productivity data. What we do know is that the proxy from the monthly employment reports shows aggregate private sector hours worked rose at an annualized rate of 3.1 percent in Q1, while hours worked by the self-employed rose at a 6.5 percent rate. While that leaves a few blanks to fill in, the net result should be a healthy rate of Q1 labor productivity growth |

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

# ECONOMIC PREVIEW

REGIONS

Week of May 3, 2021

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Q1 Unit Labor Costs** Thursday, 5/6<br>Range: -3.2 to 0.9 percent<br>Median: -1.0 percent SAAR | Q4 2020 = +6.0% SAAR | Down at an annualized rate of 2.3 percent. Even with firmer growth in compensation costs, the rebound in productivity growth should push unit labor costs (or, labor costs per unit of output produced) lower. |
| **April Nonfarm Employment** Friday, 5/7<br>Range: 0.700 to 1.500 million jobs<br>Median: 0.970 million jobs | Mar = +916,000 jobs | Up by 1.216 million jobs, with private sector payrolls up by 1.113 million jobs and public sector payrolls up by 103,000 jobs. Our forecast anticipates a stepped-up pace of hiring in the services sector, reflecting further reopening of the economy and firms positioning themselves for significantly stronger demand over the months ahead. We also look for the April data to show another solid increase in payrolls amongst the goods producing industries (construction, manufacturing, and mining). We expect the pace of hiring, particularly in the services sector, will remain robust through Q2, but there are downside risks to our outlook. Supply chain bottlenecks, including the global shortage of computer chips, could hold down manufacturing employment. Additionally, a growing number of firms report efforts to fill jobs are being hampered by labor shortages, which is consistent with labor force participation remaining well below pre-pandemic rates. |
| **April Manufacturing Employment** Friday, 5/7<br>Range: 45,000 to 90,000 jobs<br>Median: 65,000 jobs | Mar = +53,000 jobs | Up by 66,000 jobs. |
| **April Average Weekly Hours** Friday, 5/7<br>Range: 34.6 to 35.0 hours<br>Median: 34.9 hours | Mar = 34.9 hours | Unchanged at 34.9 hours. |
| **April Average Hourly Earnings** Friday, 5/7<br>Range: -0.3 to 0.3 percent<br>Median: 0.0 percent | Mar = -0.1% | Down by 0.2 percent, which would translate into a year-on-year decline of 0.5 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. Recall that when nonfarm payrolls declined by 20.7 million jobs last April, average hourly earnings jumped by 4.6 percent. That was nothing more than a mix issue, as payrolls in leisure and hospitality services, the industry group with the lowest hourly wage, fell by over 7.4 million jobs, which pushed the overall average hourly wage higher. If we are correct that leisure and hospitality services will drive overall job growth in Q2, those mix effects will reverse, i.e., the addition of large numbers of jobs in leisure and hospitality services will drag down the overall average hourly wage, which is reflected in our April forecast. The average hourly earnings metric is always subject to mix issues, just not nearly to this extent, and to the extent we are correct on this point average hourly earnings will be an unreliable indicator of changes in labor costs over the next few months. |
| **April Unemployment Rate** Friday, 5/7<br>Range: 5.2 to 5.9 percent<br>Median: 5.7 percent | Mar = 6.0% | Down to 5.6 percent. While we do anticipate a healthy increase in the labor force, we look for an even larger increase in household employment to push the jobless rate lower. Our forecast may be a bit ambitious, but we will note that in the Conference Board's monthly survey of consumer confidence, the "jobs plentiful/jobs hard to get" spread widened significantly in April. Changes in this spread have long been a reliable indicator of changes in the unemployment rate, and the extent to which the spread widened in April suggests an unemployment rate of closer to 5.0 percent, so in that context our forecast may not be all that ambitious.<br><br>One point we think worth raising in the context of labor force participation is that the monthly data on labor force flows show the rate at which people are entering the labor force each month (whether new entrants or re-entrants) has been in line with, if not a touch stronger than, the rate seen prior to the pandemic. At the same time, however, the rate at which people are exiting the labor force has also picked up, most notably the number of people transitioning from unemployed in one month to not in the labor force in the following month. While there are several factors that are likely contributing to this, the point here is that if the pace of these outflows begins to slow, measured labor force participation would increase and it could result in a more gradual reduction in the unemployment rate than has been seen to date. This is one of the details of the April data we will be watching closely. |

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com