ECONOMIC PREVIEW

Week of June 28, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 27-28 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%	As evidenced in last week's data on new and existing home sales, the housing market is a microcosm of the broader economy – supply unable to keep pace with robust demand, resulting in rapidly rising prices. This week's slate of data releases will carry on with that general theme, starting with the June ISM Manufacturing Index. Supply side constraints are holding down growth in manufacturing output, and rising costs for labor and non-labor inputs are contributing to price pressures in the broader economy. The June employment report (see Page 2) will be another illustration of these same themes. Clearly, firms would be hiring more workers if they could find more workers to hire, and this imbalance between labor demand and labor supply has bid up wages much more rapidly than would have otherwise been the case. In each instance, the June data will be scoured for any signs that the supply side constraints are easing, though we don't look for that to be the case to any meaningful degree. It is easy to lose sight of the fact that real GDP is growing at a rapid pace even with these supply-side constraints, but it is also the case that growth could be even faster without them.
June Consumer Confidence Tuesday, 6/29 Range: 115.0 to 122.0 Median: 119.0	Apr = 117.2	Up to 121.4. One thing that will be interesting to see is whether the present conditions component and the expectations component continue to move in opposite directions. In each of the past two surveys, the present conditions component has risen while the expectations component has fallen, but our forecast anticipates both will have risen in the June survey. Either way, we'll be more interested in consumers' assessments of labor market conditions, which have improved dramatically over the past three months. As of May, the "jobs plentiful/jobs hard to get" spread, which has long been a reliable indicator of changes in the unemployment rate, is wider than at any point since January 2020 and we look for it to have widened further in June.
June ISM Manufacturing Index Thursday, 7/1 Range: 59.0 to 62.5 percent Median: 61.0 percent	May = 61.2%	Down to 60.9 percent. The manufacturing sector remains beset by supply chain and logistics bottlenecks, rising costs, and labor shortages, yet continues to expand. In the spirit of the upcoming Olympics, think of it as Katie Ledecky having to swim her races with a 100-pound anvil strapped to her ankle (our money would still be on her, by the way). It seems unlikely that the ISM's June survey will show meaningful relief from the constraints keeping the factory sector from growing at an even faster pace, hence our expectation of little change in the headline index number. The details we'll be watching most closely will be new orders, supplier delivery times, and input prices, and the tone of comments from survey respondents will also bear noting. There seems to be growing support for the view that supply chain and logistics bottlenecks will persist into early-2022, which we suppose still counts as transitory but is just less transitory than many assumed would be the case when these issues began to surface. We've always thought the resolution of these issues would be later rather than sooner, and the timing matters because the longer these issues persist, the stronger downstream price pressures will be and the greater the risk that new orders take a sharp and sudden tumble.
May Construction Spending Thursday, 7/1 Range: -0.2 to 1.1 percent Median: 0.5 percent	Apr = +0.2%	Up by 0.7 percent.
May Trade Balance Friday, 7/2 Range: -$76.0 to -$67.5 billion Median: -$71.3 billion	Apr = -$68.9 billion	Widening to -$71.6 billion.
May Factory Orders Friday, 7/2 Range: 1.0 to 2.4 percent Median: 1.5 percent	Apr = -0.6%	Up by 1.8 percent. The advance data on durable goods orders show a sharp increase in top-line orders thanks to higher orders for motor vehicles and nondefense aircraft, while ex-transportation orders barely budged and core capital goods orders fell. While these details were weaker than we anticipated, the come in the context of sizable upward revisions to the initial estimates of April orders, so in that sense the dollar volume of core capital goods orders is pretty much where we thought it would be. The question, however, is how much further upside room there is for core capital goods orders, which lead the business investment data in the GDP accounts. Our view is that there are two main avenues for further growth in business investment in machinery and equipment – replacement investment as firms update aged capital stocks, and investment aimed at enhancing labor productivity.

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June Nonfarm Employment Friday, 7/2 Range: 400,000 to 1,000,000 jobs Median: 695,000 jobs	May = +559,000 jobs	Up by 721,000 jobs, with private sector payrolls up by 627,000 jobs and public sector payrolls up by 94,000 jobs. Once again, estimates of public sector job growth will be juiced by seasonal adjustment noise, as there will be far fewer layoffs in the education segment of state and local government as is typically the case in the month of June. As such, our focus will be squarely on private sector job growth which fell well short of our forecasts in April and May. Given that there are more than nine million open jobs, this says far more about the supply of labor than it does about the demand for labor. Our forecast anticipates some easing of the labor supply constraints that have held down the pace of hiring in recent months, though we do not expect there to be much of an impact from states pulling the plug on supplemental unemployment insurance benefits. The earliest of those withdrawals took effect in mid-June, so given the early end to the BLS's June survey period the June data are unlikely to be impacted. It could be that benefit recipients facing the drop in total benefit payouts returned to the labor force to begin looking for work, or it could be that they didn't feel much pressure to do so given how readily available jobs are in many places. Either way, look for a bigger impact from this source in the July data. As in each of the prior four months, we look for leisure and hospitality services to have made the biggest contribution to job growth in June, and this is one of the industry group in which wage pressures are the most pronounced.
June Manufacturing Employment Friday, 7/2 Range: 20,000 to 40,000 jobs Median: 28,000 jobs	May = +23,000 jobs	Up by 24,000 jobs.
June Average Weekly Hours Friday, 7/2 Range: 34.7 to 35.0 hours Median: 34.9 hours	May = 34.9 hours	Unchanged at 34.9 hours.
June Average Hourly Earnings Friday, 7/2 Range: 0.1 to 0.6 percent Median: 0.3 percent	May = +0.5%	Up by 0.2 percent, which would translate into a year-on-year increase of 3.5 percent. We see two conflicting forces acting on average hourly earnings in June. Clearly, labor supply constraints have contributed to rapid wage growth across all private sector industry groups, as evident in the increases in average hourly earnings in April and May. If we are correct that June will have seen at least some easing in these labor supply constraints, that could take some of the edge off of wage growth. Of more significance in our below-consensus forecast, however, is that the BLS's June survey period ended much earlier in the month than is typical. In months in which the survey period ends prior to the middle of the month, the estimate of average hourly earnings tends to be biased lower, and we expect these calendar effects to be in play in June. Even if we are correct, however, wage growth will likely remain robust through the summer months before the fall brings more meaningful relief from labor supply constraints. Our calls on job growth, hours worked, and hourly earnings would yield a 0.7 percent increase in aggregate private sector wage and salary earnings.
June Unemployment Rate Friday, 7/2 Range: 5.5 to 5.8 percent Median: 5.7 percent	May = 5.8%	Down to 5.5 percent as increased household employment should more than offset any increase in the labor force. As to the change in the labor force, we'll be watching two factors that could have an outsized impact in the June data. First, in any given year, May and June tend to see a sizable influx of younger job seekers, particularly 16-to-19 year-olds, into the labor force as school years end and students set their sights on summer jobs. The influx this May was much smaller than typical for the month (based on the not seasonally adjusted data), and if that is also the case in June, it will hold down labor force growth in the seasonally adjusted data. Second, the number of exits from the labor force rose significantly in May, with over seven million people transitioning to out of the labor force, the vast majority of whom were employed prior to exiting. To the extent this reflects retirements, the number of people transitioning from being employed in one month to not in the labor force in the following month could remain elevated for quite some time, thus acting as a persistent drag on overall labor force participation. This isn't to say that either, or both, of these factors will skew measured labor force growth in June, but they will make a good starting point should something not look quite right about the reported change in the labor force in June.

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