ECONOMIC PREVIEW

REGIONS

Week of August 30, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 21-22 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%	In his much, if not over, anticipated comments last Friday at the (virtual) Jackson Hole gathering, Fed Chairman Powell said more with the tone of his comments than he did with his actual comments. Stating that "if the economy evolved broadly as anticipated, it could be appropriate to start reducing the pace of asset purchases this year" was perhaps stating the obvious but was nonetheless the closest Chairman Powell came to tipping the FOMC's hand on tapering the Fed's monthly asset purchases. The overall tone of his comments, however, made it clear Chairman Powell is in no particular hurry for tapering to begin. This was in stark contrast to many of the Regional Fed Bank Presidents who, perhaps because they are in closer contact with executives confronting shortages of and higher costs for materials and labor on a daily basis, have adopted a more aggressive posture on tapering. Either way, the pace of tapering will matter more to markets than when tapering starts, and we know no more about either after Jackson Hole than we did before Jackson Hole.
August Consumer Confidence Tuesday, 8/31 Range: 110.0 to 126.0 Median: 123.0	Jul = 129.9	Down to 123.2 with the spike in COVID-19 cases acting as a drag. The Conference Board's survey is more focused on labor market conditions, which is one reason we do not expect to see as dramatic of a tumble as taken by the University of Michigan's gauge of consumer sentiment, which attaches more weight to financial conditions, including inflation. Recall that in the Conference Board's July survey, the "jobs plentiful/jobs hard to get" spread widened to a degree last seen in July 2000. While that gap may have narrowed a bit in August, that consumers still feel strongly positive about labor market conditions should put a floor under the headline index.
August ISM Manufacturing Index Wednesday, 9/1 Range: 55.2 to 59.8 percent Median: 58.5 percent	Jul = 59.5%	Down to 57.6 percent. We look for the cumulative toll of supply chain and logistics bottlenecks to become more apparent in the ISM's survey of the factory sector. Our forecast anticipates declines in the sub-indexes measuring new orders, production, employment, and inventories, which will weigh on the headline index. While we look for delivery times to have slowed further, that would actually be a support for the top-line index. To be sure, even if our forecast is on or near the mark, it would be consistent with further expansion in the factory sector, but at a slower pace than over the prior several months. It is looking more and more like supply chain and logistics bottlenecks will persist into 2022, and if we are correct on that point the ISM's headline index will fall further in the months ahead. If there is a silver lining in all of this, it is that firms are sitting on growing backlogs of unfilled orders, and that inventories will have to be built back up once supply chain and logistics constraints begin to ease. When that will happen, however, is anything but clear at this point.
July Construction Spending Wednesday, 9/1 Range: -0.5 to 1.4 percent Median: 0.2 percent	Jun = +0.1%	Up by 0.4 percent.
July Trade Balance Thursday, 9/2 Range: -$77.8 to -$65.5 billion Median: -$70.9 billion	Jun = -$75.7 billion	Narrowing to -$70.4 billion. Advance data show the deficit in the goods account narrowed in July on a surprisingly large decline in imports of goods. It could be, however, that this decline is more a reflection of shipping bottlenecks and growing backlogs of ships waiting to be unloaded at U.S. ports and less a reflection of a shift in U.S. consumption patterns. Either way, a smaller deficit in the goods account will make up for what should be a smaller surplus in the services account, as broadcast rights payments for the Tokyo Olympics should drive up imports of services.
Q2 Nonfarm Productivity (revised) Thursday, 9/2 Range: 2.3 to 3.1 percent Median: 2.5 percent	Q2 (pre.) = +2.3% SAAR	Up at an annualized rate of 2.6 percent. Revisions to the Q2 GDP data show real nonfarm business output grew at an annualized rate of 8.1 percent in Q2, up from the initial estimate of 7.9 percent. As such, there should be an upward revision to the initial estimate of Q2 labor productivity growth.
Q2 Unit Labor Costs (revised) Thursday, 9/2 Range: 0.6 to 1.6 percent Median: 0.9 percent	Q2 (pre.) = +1.0% SAAR	Up at an annualized rate of 0.8 percent, as an upward revision to growth in labor productivity should yield a downward revision to growth in unit labor costs.
July Factory Orders Thursday, 9/2 Range: -0.2 to 0.8 percent Median: 0.3 percent	Jun = +1.5%	Up by 0.3 percent.

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August ISM Non-Manufacturing Index Friday, 9/3 Range: 57.5 to 63.7 percent Median: 61.9 percent	Jul = 64.1%	Down to 61.4 percent. As with the ISM's survey of the factory sector, we expect the non-manufacturing survey to show some deceleration in the pace of expansion. We expect the indexes measuring new orders, employment, and business activity to give back some ground as delivery times slow further. While we always pay attention to the comments from survey respondents relayed by ISM, as the topics and tone of the comments can be revealing, we'll pay particular attention to the comments from the August survey for signs that the spike in COVID case counts was weighing on demand. The accommodation & food services, arts/entertainment/recreation, and retail industry groups would be the industry groups most at risk.
August Nonfarm Employment Friday, 9/3 Range: 350,000 to 850,000 jobs Median: 685,000 jobs	Jul = +943,000 jobs	Up by 521,000 jobs, with private sector payrolls up by 432,000 jobs and public sector payrolls up by 89,000 jobs. Two questions loom ahead of the August employment report: 1) will the dreaded "August effect" come into play in the initial estimate of August job growth? and 2) did the rapid rise in COVID-19 case counts stemming from the Delta variant have an adverse impact on labor market conditions in August? As may be inferred from our below-consensus forecast, we think the answer to both questions is "yes." Recall that in any given year the initial estimate of August job growth tends to significantly undershoot the final estimate; over the past five years, the initial estimate of August job growth has been revised upward by an average of 75,000 jobs by the final estimate. Low initial response rates to the BLS's August establishment survey are a primary factor behind this pattern. At the same time, however, this year's August data could be impacted by rising COVID case counts, particularly the services industries as there are indications that consumers dialed down spending in areas such as travel, tourism, dining out, entertainment, and recreation in August. It may also be that labor force participation suffered as well, meaning that if hiring does fall short of consensus expectations, it could reflect supply-side issues as well as demand-side issues. To be sure, initial claims for unemployment insurance benefits fell sharply between the July and August survey periods, which normally would assuage concerns over August job growth. But, and you just knew there was one of those coming, given how much noise there is in the claims data of late, they are a less reliable guide to monthly job growth than has typically been the case. As has been the case over recent months, we expect the data on public sector job growth to be clouded by seasonal adjustment noise, so our focus will be on private sector job growth. In addition to job growth, we'll look for the breadth of hiring across private sector industry groups and will look to the data on retail trade and leisure and hospitality services for signs of any COVID-related effects on employment.
August Manufacturing Employment Friday, 9/3 Range: 10,000 to 45,000 jobs Median: 25,000 jobs	Jul = +27,000 jobs	Up by 21,000 jobs.
August Average Weekly Hours Friday, 9/3 Range: 34.7 to 34.8 hours Median: 34.8 hours	Jul = 34.8 hours	Unchanged at 34.8 hours.
August Average Hourly Earnings Friday, 9/3 Range: 0.2 to 0.5 percent Median: 0.3 percent	Jul = +0.4%	Up by 0.3 percent, which would translate into a year-on-year increase of 3.9 percent. 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.
August Unemployment Rate Friday, 9/3 Range: 5.1 to 5.5 percent Median: 5.2 percent	Jul = 5.4%	Down to 5.2 percent. As noted above, we'll be watching the household survey data for signs that labor force participation may have been held down by rising COVID case counts in August. Reported levels of the labor force and household employment may get a boost from friendly seasonal adjustment. Summer inflows of younger job seekers were much smaller than typical this summer, and given that August is the month in which younger adults leave the labor force in great numbers for the start of the school year, the August seasonal adjustment factors could over-compensate. This of course would be nothing more than noise, and we'll be more focused participation amongst the 25-to-54 year-old cohort, a/k/a the "prime working age population," which continues to lag significantly behind pre-pandemic norms.

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