ECONOMIC PREVIEW

Week of May 2, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the May 3-4 FOMC meeting):* Target Range Mid-point: 0.875 to 0.875 percent Median Target Range Mid-point: 0.875 percent	Range: 0.25% to 0.50% Midpoint: 0.375%	In the wake of the report on Q1 GDP, which showed real GDP contracted at an annual rate of 1.4 percent, there were some who argued the FOMC may be inclined to scale back the timing and magnitude of looming Fed funds rate hikes. That contraction in real GDP in Q1, however, said more about GDP accounting than it did about the underlying health of the U.S. economy, and it certainly didn't leave the FOMC any less behind the curve on inflation, with the 8.0 percent annualized increase in the GDP Price Index an unwelcome reminder of that. So, the question ahead of this week's FOMC meeting isn't whether the Committee will raise the Fed funds rate target range by 50 basis points – they will – but rather how many such increases we will see as the FOMC makes their way back to neutral, if not beyond, in great haste. This week's meeting should also bring the announcement of the FOMC's plans for paring down the Fed's balance sheet, which will likely be in step with the outline offered in the minutes to the March FOMC meeting. Still, while the FOMC would like to think the balance sheet run-off will be little more than "background noise," even a modest pace of shrinkage in the Fed's balance sheet will leave a void that will have to be filled. That obviously has implications for the path of market interest rates, and this could be yet another source of market volatility in the weeks/months ahead. There will be no updated economic and financial projections issued in conjunction with this week's FOMC meeting, and those issued in conjunction with the March meeting were old news by time the ink had dried. This makes Chairman Powell's post-meeting press conference all the more interesting; he will surely be pressed as to how far and how fast the Committee will push the funds rate, and how the running down of the Fed's balance sheet may influence those decisions. For now, we expect him to stress getting back to a neutral policy stance, and doing so rapidly, then letting the data on growth, inflation, and the labor market take over.
April ISM Manufacturing Index Monday, 5/2 Range: 56.0 to 59.0 percent Median: 57.6 percent	Mar = 57.1%	Up to 57.9 percent. Though the ISM's March survey indicated continued expansion in the factory sector, what stood out to us was the drop in the new orders index which, while indicating further growth in orders, fell to its lowest level since May 2020. This stood out to us because we had speculated that sizable order backlogs, sustained price pressures, and uncertain delivery times might at some point begin to weigh on new orders. While a single month of slower growth in orders doesn't settle that question, it did nonetheless catch our attention, meaning the reading on the orders index in the April survey will take on added significance. Renewed threats to global supply chains may be reflected in further slowing in supplier delivery times in the ISM's April survey, but keep in mind that would push the headline index higher, not lower. One caveat is that in both the ISM's manufacturing and services surveys, the April seasonal adjustment factors are punitive, meaning that anything short of the normal April increases in the index components will be made to look much worse in the seasonally adjusted data, which injects downside risk into our forecasts. Also, while it does not enter into the calculation of the headline index, the prices paid index bears watching after having spiked in the March survey. An April reading at or above the March reading would be a sign that renewed supply chain stresses are fueling further input price pressures which would in turn ultimately be reflected in the gauges of inflation on the wholesale and retail levels.
March Construction Spending Monday, 5/2 Range: 0.3 to 1.1 percent Median: 0.8 percent	Feb = +0.5%	Up by 0.5 percent.
March Factory Orders Monday, 5/2 Range: 0.3 to 1.8 percent Median: 1.1 percent	Feb = -0.5%	Up by 1.6 percent. A solid increase in core capital goods orders helped push durable goods orders higher, and we anticipate price effects bolstered orders for nondurable goods. The net effect should be a hefty increase in total factory orders.
April ISM Non-Manufacturing Index Wednesday, 5/4 Range: 56.5 to 59.5 percent Median: 58.5 percent	Mar = 58.3%	Up to 59.0 percent. Indications are that services sector activity picked up sharply in April, which should be reflected in the ISM's survey. As noted above, however, the April seasonal adjustment factors are somewhat punitive, which has led us to temper our forecast. As with the ISM's manufacturing survey, the indexes of supplier delivery times and input prices will be indicative of the extent to which supply chain stresses have intensified over recent weeks.

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March Trade Balance Wednesday, 5/4 Range: -$110.0 to -$73.2 billion Median: -$107.0 billion	Feb = -$89.2 billion	Widening to -$105.8 billion, which would far and away be the largest monthly trade deficit on record. The advance data on trade in goods show the deficit in the goods account ballooned to a record high in March, with a surge in imports overwhelming a sizable increase in U.S. exports. While part of that reflects price effects, the Q1 GDP data show there is more to it than that. As we've noted, global trade flows have been badly distorted over the past several quarters, with the data tending to be lumpy, i.e., uneven monthly changes punctuated by sizable and seemingly random spikes in certain months. This makes it hard to discern the broader drivers of patterns in net exports and what those may suggest about activity in the broader economy. What was noteworthy in the Q1 GDP data was the strength of imports of both consumer and capital goods, suggesting a healthier pace of economic activity than implied by the contraction in real GDP.
Q1 Nonfarm Labor Productivity Thursday, 5/5 Range: -7.4 to -1.8 percent Median: -4.5 percent SAAR	Q4 2021 = +6.6% SAAR	Down at an annualized rate of 4.3 percent. Real output in the nonfarm business sector contracted at an annualized rate of 2.4 percent in Q1, underperforming top-line real GDP. Data from the monthly employment reports suggest much slower growth in aggregate hours worked in Q1 than was the case in Q4 2021, but that does not always flow through to the productivity data. If growth in aggregate hours worked did not slow to the degree implied by the monthly employment reports, the decline in labor productivity will be even steeper than our forecast anticipates.
Q1 Unit Labor Costs Thursday, 5/5 Range: 6.4 to 12.5 percent Median: 8.5 percent SAAR	Q4 2021 = +0.9% SAAR	Up at an annualized rate of 10.2 percent. Robust growth in hourly compensation plus a decline in productivity add up to a hefty increase in unit labor costs.
April Nonfarm Employment Friday, 5/6 Range: 250,000 to 517,000 jobs Median: 385,000 jobs	Mar = +431,000 jobs	Up by 392,000 jobs, with private sector payrolls up by 378,000 jobs and public sector payrolls up by 14,000 jobs. The past two monthly employment reports have been blessedly free of the seasonal adjustment noise that had plagued the prior several reports, but that may not be the case with the April report. As with much of the economic data for the month of April, seasonal adjustment could make April job growth look misleadingly weak. Still, labor supply constraints became a bit less binding in the first few months of 2022, and we anticipate that having remained the case in April with a further increase in the labor force participation rate. That initial claims for unemployment insurance continue to hover at multi-decade lows and fell between the March and April survey periods points to continued solid job growth, which would not be the case were the economy as sickly as implied by the headline print on the report on Q1 GDP. Another relevant metric to watch will be the hiring diffusion index, a measure of the breadth of hiring across private sector industry groups. Job growth has been notably broad based over the past several months, but were that to change, it would be a worrisome sign as to the health of the economy.
April Manufacturing Employment Friday, 5/6 Range: 20,000 to 45,000 jobs Median: 35,000 jobs	Mar = +38,000 jobs	Up by 33,000 jobs.
April Average Weekly Hours Friday, 5/6 Range: 34.6 to 34.7 hours Median: 34.7 hours	Mar = 34.6 hours	Up to 34.7 hours.
April Average Hourly Earnings Friday, 5/6 Range: 0.3 to 0.6 percent Median: 0.4 percent	Mar = 0.4%	Up by 0.6 percent, which would translate into a year-on-year increase of 5.7 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 1.2 percent increase in aggregate private sector wage and salary earnings, leaving them up 10.5 percent year-on-year. The April data will be a test of sorts following two straight months of tepid increases. While we attributed that to mix issues and calendar effects stemming from early ends to the February and March survey periods, others saw it as the end of wage growth brought about by rising participation. Should the April data bring another tepid increase, we'll have to rethink our position on wage growth.
April Unemployment Rate Friday, 5/6 Range: 3.5 to 3.7 percent Median: 3.5 percent	Mar = 3.6%	Down to 3.5 percent. While we look for another increase in labor force participation, we also look for another month of strong growth in household employment to push the jobless rate down further.

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