ECONOMIC PREVIEW

REGIONS

Week of August 1, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 20-21 FOMC meeting):* Target Range Mid-point: 2.875 to 2.875 percent Median Target Range Mid-point: 2.875 percent	Range: 2.25% to 2.50% Midpoint: 2.375%	While the July employment report (see Page 2) is the highlight of this week's slate of data releases, Tuesday brings the release of the Job Openings and Labor Turnover Survey (a/k/a JOLTS) for June. Though likely having fallen, the number of open jobs will nonetheless remain significantly elevated, and labor supply remains no match for labor demand even as the latter has begun to soften.
July ISM Manufacturing Index Monday, 8/1 Range: 50.0 to 53.0 percent Median: 52.0 percent	Jun = 53.0%	Down to 51.8 percent. It seems clear that the pace of factory sector activity has slowed, and the ISM's gauge of new orders fell below 50.0 percent in June, indicating contraction in orders. Still, the June seasonal adjustment factors for the new orders, production, and employment components of the ISM's survey were punitive, which is also the case with the July seasonal adjustment factors. To put it another way, smaller than normal increases in these components in the raw data for June and July could easily turn into declines in the seasonally adjusted data, meaning any slowdown in activity would be overstated in the published data. Either way, we expect the headline index to remain above the 50.0 percent break between contraction and expansion, but it's getting to be a closer and closer call. One thing to keep in mind is that there are growing signs that supply chain and shipping constraints are easing, even if they remain far from being fully cleared. In terms of the ISM's headline index, however, that is actually a drag to the extent it is reflected in faster supplier delivery times. For instance, the improvement in supplier delivery times reported in the June data knocked 1.6 points off the headline index, and if we're correct in expecting the July data to show further improvement in supplier delivery times, that will act as a drag on the headline index. To be sure, slowing demand could be one reason supplier delivery times are shortening, which is why we put more emphasis on new orders, production, and employment. As with the June data, however, seasonal adjustment could cloud the signal being sent by the July data.
June Construction Spending Monday, 8/1 Range: -1.3 to 0.5 percent Median: 0.2 percent	May = -0.1%	Down by 0.8 percent.
June Factory Orders Wednesday, 8/3 Range: -0.4 to 1.7 percent Median: 1.0 percent	May = +1.6%	Up by 1.4 percent. It's great when a forecast comes together, but when a forecast falls flat on its face, yeah, not so great. In our forecast of June durable goods orders, we pegged a decline in orders for nondefense aircraft despite an increase in unit orders, which simply reflected a much more challenging pricing environment (not all prices are going up). We expected a decline in the dollar volume of orders for civilian aircraft to act as a drag on total durable goods orders, which indeed proved to be the case. What we didn't see coming, however, was an 80.6 percent increase in orders for defense aircraft (obviously, they were stealth fighters, right?), which alone added roughly 1.7 percentage points to the change in total durable goods orders, accounting for most of the 1.9 percent increase. The increase in durable goods orders will, along with a mostly price-driven increase in orders for nondurable goods will push total factory orders higher. The bigger issue, however, is the state of core capital goods orders. While the data show continued modest increases in orders and shipments of core capital goods, keep in mind that the data are reported in nominal terms, i.e., they are not adjusted for price changes. As we learned from the initial estimate of Q2 GDP, after adjusting for higher prices, investment in equipment and machinery declined in Q2, and our concern is that the decline in real spending will continue, turning what has been a meaningful support for real GDP into a modest drag and at the same time weighing on labor productivity growth and longer-term GDP growth. Business sentiment has clearly soured of late, which seems to be taking a toll on business investment spending.
July ISM Non-Manufacturing Index Wednesday, 8/3 Range: 51.0 to 55.9 percent Median: 53.7 percent	Jun= 55.3%	Down to 54.1 percent. The points we made above in our discussion of the ISM's manufacturing survey on seasonal adjustment and supplier delivery times hold here as well, though July seasonal adjustment is less punitive in the non-manufacturing survey. While many of the consumer facing segments of the broad services sector are holding their own, that isn't so much the case with many of the business facing segments, and construction is a drag on both fronts. In that sense, it seems the risks to our forecast are weighted to the downside but, either way, we expect the headline index to indicate continued expansion in the broad services sector in July.

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June Trade Balance Thursday, 8/4 Range: -$96.9 to -$76.9 billion Median: -$80.0 billion	May = -$85.5 billion	Narrowing to -$79.6 billion.
July Nonfarm Employment Friday, 8/5 Range: 50,000 to 300,000 jobs Median: 250,000 jobs	Jun = +372,000 jobs	Up by 276,000 jobs, with private sector payrolls up by 252,000 jobs and public sector payrolls up by 24,000 jobs. Job growth has outperformed our forecasts over the past few months, but at the same time the revisions to the initial estimates of job growth have been downward. On the whole, however, though slowing, job growth has been more resilient than we've anticipated while remaining notably broad based. We'll be particularly interested in the extent to which the latter was the case in the July data given signs of slowdowns in areas such as technology, housing, and retail trade. Our forecast anticipates a sharply slower pace of hiring in the broad services sector but allows for the possibility that reported job growth amongst the goods producing industries will be inflated by seasonal adjustment noise in motor vehicle production. In terms of assessing the health of the labor market, August 24 is a date to keep in mind as that is when the BLS will release the initial look at the annual benchmark revisions to the establishment survey data. Though the pace of nonfarm job growth has slowed, it could be that the monthly employment reports have been understating the degree of this slowdown. The household survey data have shown a more pronounced slowdown in job growth and initial claims for unemployment insurance have been drifting higher. The benchmark revisions to the establishment survey data reflect more comprehensive data from payroll tax returns than that used to derive the monthly estimates of job growth. Our hunch is the that benchmark revisions will show less job growth than has previously been reported, but not to the extent we'd worry that the labor market was on the verge of rolling over.
July Manufacturing Employment Friday, 8/5 Range: 5,000 to 27,000 jobs Median: 20,000 jobs	Jun = +29,000 jobs	Up by 27,000 jobs.
July Average Weekly Hours Friday, 8/5 Range: 34.4 to 34.6 hours Median: 34.5 hours	Jun = 34.5 hours	Up to 34.6 hours. If we're correct in expecting employment amongst the goods producing industries to have remained strong in July, even if aided by seasonal adjustment, that could bias the average length of the workweek up. At the same time, however, if firms are seeing demand soften, the first lever they will pull in reducing total labor input is hours worked, so the risk to our call on average hours worked is to the downside. If it seems that we get too worked up over one-tenth of an hour changes in average length of the workweek, keep in mind that each one-tenth of an hour change is equivalent to well over 300,000 jobs in terms of the economy's productive capacity, and will also have a profound impact on changes in aggregate wage and salary earnings (see below). More broadly, changes in aggregate hours worked tend to lead changes in the unemployment rate and the broader business cycle, making the average length of the workweek well worth monitoring.
July Average Hourly Earnings Friday, 8/5 Range: 0.1 to 0.4 percent Median: 0.3 percent	Jun = +0.3%	Up by 0.4 percent, which would translate into a year-on-year increase of 5.0 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.9 percent increase in aggregate private sector wage and salary earnings, leaving them up 9.2 percent year-on-year.
July Unemployment Rate Friday, 8/5 Range: 3.5 to 3.8 percent Median: 3.6 percent	Jun = 3.6%	Down to 3.5 percent. The unemployment rate has held at 3.6 percent for the past four months, in part reflecting the labor force participation rate edging lower, and it's the latter metric we'll be more interested in when the July data come out. Another metric from the household survey data we'll be watching is the number of people reporting they worked part-time in July due to slack business conditions. Though not directly comparable to the data on average weekly hours worked from the establishment survey, the number of people working part-time due to slack business conditions can be a useful marker of patterns in overall labor demand. As with any of the series from the household survey, this series can be quite volatile from month-to-month, such as a sizeable increase in May having been more than reversed in June. But, to the extent the labor market and the broader economy are slowing, we should see an upward trend in the number of people working part-time due to slack business conditions.

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