ECONOMIC PREVIEW

REGIONS

Week of February 6, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 21-22FOMC meeting):* Target Range Mid-point: 4.875 to 4.875 percent Median Target Range Mid-point: 4.875 percent	Range: 4.50% to 4.75% Midpoint: 4.625%	This week's light data docket seems more than fitting after a week as dizzying as last week proved to be, capped off by the January employment report. To say the January employment report exceeded expectations is like saying Katie Ledecky is an okay swimmer. Ahead of its release, we noted the January employment report could very easily change perceptions of labor market conditions. As it turns out, it did just that, though not at all in the manner we had expected. What we had in mind was the annual benchmark revisions to estimates of nonfarm employment, hours, and earnings showing slower job growth over the back half of 2022 than had previously been reported, which would have been in keeping with other signs of slowing in the broader economy in late-2022. What we got, however, was quite the opposite, with job growth revised higher in both 2021 and 2022 and upward revisions to prior estimates of hours worked and hourly earnings. As surprising as that was, that wasn't the biggest surprise in the January employment report, for which one had to go no farther than the headline print. Total nonfarm employment is reported to have risen by 517,000 jobs in January, blowing away even the most ambitious forecast, while the unemployment rate fell to 3.4 percent, a rate last seen in May 1969. At the same time, the average length of the workweek jumped by three-tenths of an hour, a huge change as hours worked go. While the estimates of job growth and hours worked were clearly boosted by seasonal adjustment, stripping out this noise still leaves a much stronger set of labor market data than anyone would have expected ahead of the January employment report. There are both backward looking and forward looking implications of the January employment report. As to the former, the benchmark revisions show aggregate private sector hours worked grew at a meaningfully faster rate in 2022 than had first been reported. This means labor productivity was much weaker than has thus far been reported, real GDP grew at a faster rate in 2022 than has thus far been reported, or some combination of the two. To us, an upward revision in real GDP growth makes the most sense, though we're months away from that question being answered. Either way, private sector labor earnings, the largest component of personal income, grew at a faster pace than has thus far been reported, meaning many households came into 2023 on firmer financial footing than has been assumed to be the case. Looking forward, the January employment report raises the question of whether the FOMC will feel the need to go even further, and stay even longer, than they have indicated they would. Recall that many FOMC members, including Chair Powell, see core services excluding housing as being the source of the most persistent inflation pressures in the economy, with the path of prices in this segment being more sensitive to labor costs than is the case elsewhere. Judging by the reaction in the financial markets on Friday, many market participants seem to think that, despite signs of slowing wage growth, the FOMC will be more aggressive in raising the Fed funds rate than had previously been thought. Then again, the jump in bond yields on Friday basically served to undo the decline on Wednesday. In his press conference following the FOMC's decision to raise the Fed funds rate by twenty-five basis points, Chair Powell pushed back against unwarranted easing in financial conditions and market expectations of funds rate cuts by year-end 2023, but he did so less forcefully than he has in the past. While we perceived a change in his tone, we found his message to be no different than it has been all along and, as such, were surprised to see the reaction in the financial markets. One could argue that the jump in yields in the wake of the January employment report only reversed an unwarranted drop in yields after the FOMC meeting, meaning yields ended last week where they would have, or should have, been all along. Clearly, the FOMC and the markets see different paths ahead for inflation and the broader economy. The economic data of late, however, have done nothing to settle the question of which view will be closer to the mark, the January employment report notwithstanding. While we continue to expect another twenty-five basis point hike in the funds rate at the March FOMC meeting, beyond that, it's anyone's guess.
December Trade Balance Tuesday, 2/7 Range: -$70.7 to -$62.6 billion Median: -$68.5 billion	Nov = -$61.5 billion	Widening to -$68.9 billion.

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