ECONOMIC PREVIEW

Week of February 27, 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 5.125 percent Median Target Range Mid-point: 4.875 percent	Range: 4.50% to 4.75% Midpoint: 4.625%	Tucked away in the details of the revisions to the initial estimates of the Q4 GDP data is a significant upward revision to growth in aggregate wage and salary earnings. Not only was Q4 growth revised meaningfully higher, but so too was the prior estimate of Q3 growth. In other words, growth in aggregate wage and salary earnings – the largest block of personal income – is now shown to have been significantly faster over the back half of 2022 than had previously been reported. In turn, growth in total and disposable personal income since mid-2022 has been stronger than had been reported, meaning households have had more financial breathing room (lower monthly debt service burdens, excess savings being pared down at a slower rate) than has generally been thought to be the case. We've consistently argued that those who interpret what can be significant swings in the monthly data on consumer spending as a referendum on the financial condition of U.S. consumers are wrong in doing so, with the truth somewhere between the extremes we've seen over the past few months. The revised earnings/income data only bolster our case.
January Durable Goods Orders Monday, 2/27 Range: -5.6 to 0.6 percent Median: -4.0 percent	Dec = +5.6%	Down by 5.1 percent. Recall that it was a surge in civilian aircraft orders that pushed total orders higher in December, as ex-transportation orders fell modestly. With aircraft orders having come back down to earth in January, headline orders will plunge. None of this is anything new, as swings in airline orders often dictate how the headline orders number changes from month to month. This is why our focus is always on orders for core capital goods, an early indicator of business investment in equipment and machinery as reported in the GDP data. Core capital goods orders softened over the latter months of 2022, and we look for that weakness to have carried into 2023 as what remains a volatile and highly uncertain outlook acts as a restraint on cap-ex plans. That said, it was notable that commentary around capital spending on Q4 earnings calls was not as downbeat as was the case on the Q3 calls. To be sure, many firms at that time announced significant mark-downs in cap-ex plans, so it could be that well had already been drained by time the Q4 calls rolled around, and our sense is that the longer-term cap-ex outlook is more constructive than the near-term outlook. It's also worth noting that the durable goods data on core capital goods orders cover only one segment of overall business investment, and we expect investment in intellectual property products and structures to outperform investment in equipment and machinery over coming quarters.
January Durable Goods Orders: Ex-Trnsp. Monday, 2/27 Range: -0.5 to 0.8 percent Median: 0.2 percent	Dec = -0.2%	We look for ex-transportation orders to be unchanged, and for core capital goods orders (nondefense capital goods excluding aircraft & parts) to be down by 0.1 percent.
January Advance Trade Balance: Goods Tuesday, 2/28 Range: -$93.0 to -$87.0 billion Median: -$91.0 billion	Dec = -$89.7 billion	Narrowing to -$88.1 billion.
February Consumer Confidence Tuesday, 2/28 Range: 105.4 to 112.4 Median: 108.5	Jan = 107.1	Up to 109.6 as still-strong labor market conditions and falling gasoline prices help improve sentiment. Still, consumers' assessments of present and future conditions diverged in the January survey, with the former improving and the latter deteriorating, so this will be something to watch for in the February data. As always, our main focus will be on consumers' assessments of labor market conditions, which improved in the January survey, tipping the drop in the unemployment rate.
February ISM Manufacturing Index Wednesday, 3/1 Range: 46.5 to 49.0 percent Median: 48.0 percent	Jan = 47.4%	Down to 47.1 percent, indicating a fourth straight month of contraction in the factory sector. Right off the bat, the February seasonal adjustment factors are much tougher than those used to adjust the January data, which will weigh on the headline index. More fundamentally, in each of the past two months only two of the eighteen industry groups have reported expansion, and in January none reported growth in new orders. Sure, there's only one way to go from there, but the question is whether any such upward movement began in February. We think not and expect the new orders index to be below the 50.0 percent mark for the eighth time in the past nine months.
January Construction Spending Wednesday, 3/1 Range: -0.5 to 1.0 percent Median: 0.2 percent	Dec = -0.4%	Up by 0.4 percent.

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Q4 Nonfarm Productivity: 2nd estimate Thursday, 3/2 Range: 1.4 to 3.0 percent Median: 2.5 percent SAAR	Q4: 1st est. = +3.0% SAAR	Up at an annualized rate of 1.4 percent. Revisions show real output in the nonfarm business sector rose at an annual rate of 3.0 percent in Q4, down from the initial estimate of 3.5 percent growth. At the same time, revisions to the data on nonfarm employment and hours show much faster growth in aggregate private sector hours worked in Q4 than was initially reported. That combination is bad news for growth in labor productivity, hence our expectation of a meaningful downward revision to the initial estimate of Q4 productivity growth. If the revised productivity data do not incorporate the upward revision to Q4 hours worked, our forecast for productivity growth will be too low. As for faster growth in aggregate hours worked holding down measured Q4 labor productivity growth, we can make the same point about current quarter growth. January saw a huge increase in aggregate private sector hours worked which, regardless of what the data for February and March bring, almost surely locks in a decline in measured labor productivity in Q1 2023. Note that we stress "measured" productivity growth, as we remain highly suspicious of the productivity data. Ask yourself if it makes sense that firms would be paying more to keep bringing on more workers if doing so meant that those workers were becoming increasingly less productive. This is no mere academic question, as stronger and sustained productivity growth over time will be necessary to offset the structurally slower labor force growth dictated by weak demographic trends, with the only alternative to faster productivity growth being an even lower trend rate of real GDP growth.
Q4 Unit Labor Costs: 2nd estimate Thursday, 3/2 Range: 1.1 to 3.7 percent Median: 1.6 percent SAAR	Q4: 1st est. = +1.1% SAAR	Up at an annualized rate of 3.7 percent. If we are correct in expecting a downward revision to Q4 productivity growth, the flip side will be an upward revision to growth in unit labor costs, or, the labor cost of producing each unit of output.
February ISM Non-Manufacturing Index Friday, 3/3 Range: 52.4 to 56.6 percent Median: 54.5 percent	Jan = 55.2%	Down to 54.1 percent. While we expect the headline index to indicate continued expansion in the broad services sector, we look for the business activity and new orders indexes to slip after notably large increases in the January survey. Though not entering into the calculation of the headline index, the prices paid index nonetheless bears watching. Unlike the ISM's survey of the manufacturing sector, which has shown falling prices for non-labor inputs over recent months, the ISM's survey of the services sector shows steadily rising prices for non-labor inputs. Though labor costs are typically flagged as the primary culprit behind services price inflation, we don't think the role of non-labor input costs should be overlooked, even though they do account for a lower share of overall costs than do labor costs.

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