ECONOMIC PREVIEW

Week of June 3, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 11-12 FOMC meeting):* Target Range Mid-point: 5.375 to 5.375 percent Median Target Range Mid-point: 5.375 percent	Range: 5.25% to 5.50% Midpoint: 5.375%	While market participants may have breathed a collective sigh of relief as the April data on the PCE Deflator came across the wires on Friday, we'll note that the year-on-year change in both the total and core deflators matched what was seen in the March data. So, in that sense, the April data are more a case of not taking a step backwards rather than of taking a step forward. Still, after having been rudely surprised by the hotter than expected inflation prints seen for the first three months of the year, the April data were somewhat of a relief for market participants. We continue to question, however, how much downside room remains for inflation, at least absent growth weakening substantially or giving way to contraction. Our concern is that early-stage inflation pressures have yet to abate, and one indication of that has been the prices paid component of the ISM's monthly surveys of the manufacturing and services sectors. In that sense, we'd say this week's releases of the May ISM surveys are more important than were the April data on the PCE Deflator. This isn't to say that inflation will reaccelerate, but instead to suggest that unless and until these early-stage price pressures ease, further progress on inflation will be harder and harder to come by.
May ISM Manufacturing Index Monday, 6/3 Range: 48.2 to 50.1 percent Median: 49.6 percent	Apr = 49.2%	Up to 49.9 percent. After a sixteen month run of contraction, the headline index rose above 50.0 percent, the line between contraction and expansion, in March only to slip back below that line in April. That raised the question of whether we were simply seeing the sort of wavering that is common around cyclical turning points or whether the March reading was a one-off illusion of improvement. Our view was that the factory sector was on the road to recovery, but that the growth we expect over coming months would be somewhat halting and uneven. We tend to look at the ISM's surveys not in terms of the various diffusion indexes (new orders, production, employment, prices paid . . .) but in terms of the firm-level detail, specifically, the shares of firms reporting increases/decreases for each of the various metrics each month. On that basis, we have more confidence in our outlook for the factory sector than may be implied by the diffusion index numbers, but at the same time continue to worry about increasing pressures on prices for non-labor inputs. As such, the details of the new orders index and the prices paid index will be our main focus in the May data.
April Construction Spending Monday, 6/3 Range: -0.2 to 0.5 percent Median: 0.2 percent	Mar = -0.2%	Up by 0.5 percent.
April Factory Orders Tuesday, 6/4 Range: 0.3 to 0.8 percent Median: 0.6 percent	Mar = +0.8%	Up by 0.6 percent.
May ISM Non-Manufacturing Index Wednesday, 6/5 Range: 49.1 to 52.5 percent Median: 50.9 percent	Apr = 49.4%	Up to 51.0 percent. That the ISM's gauge of the broad services sector fell below the 50.0 line between contraction and expansion in April was much more noteworthy than the ISM's gauge of the manufacturing sector having done the same. That said, the firm-level splits on new orders, production, employment in the services sector survey were more constructive than the broad diffusion indexes, which is one reason we expect the headline index in the May non-manufacturing survey to have risen back above 50.0 percent. At the same time, however, the prices paid index shows sustained pressures on prices for non-labor inputs, pressures that have been more broadly based and more intense in the services sector than in the manufacturing sector. Were the broad services sector actually contracting, those price pressures would be easing, making this something to watch for in the May data.
April Trade Balance Thursday, 6/6 Range: -$77.8 to -$67.6 billion Median: -$76.4 billion	Mar = -$69.4 billion	Widening to -$76.6 billion. The advance data on trade in goods show a surge in the deficit in the goods account. In part, this reflects a jump in automotive imports after a similarly sized decline in March, which could simply reflect workarounds in response to the disruptions in activity at the Port of Baltimore. The other main factor behind the larger deficit in the goods account was increased imports of capital goods and industrial supplies. These goods, used in the production process by firms here in the U.S., accounted for one-half of all imports of goods in April, a share in line with longer-term norms. This is what many consistently get wrong about trade, i.e., seeing a trade deficit and focusing more on the adverse impact on the current quarter GDP math than on the ultimate boost to output and employment.

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

ECONOMIC PREVIEW

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Q1 Nonfarm Productivity: 2nd estimate Thursday, 6/5 Range: -0.1 to 1.1 percent Median: 0.1 percent SAAR	Q1: 1st est. = +0.3% SAAR	Down at an annualized rate of 0.1 percent. Revisions show real output in the nonfarm business sector grew at an annual rate of 0.9 percent in Q1 rather than the 1.3 percent rate originally reported. While there was also a modest downward revision to aggregate private sector hours worked, we expect the net result to be a decline in labor productivity in Q1. Even without the downward revision our forecast anticipates, the Q1 productivity data marked a striking reversal of the rapid pace of productivity growth seen over the prior three quarters. We suspect the "truth" lies somewhere between the two extremes and will make the following two points. First, even with the dip in Q1, the 8-quarter moving average of productivity growth, which we see as the most useful gauge of the underlying trend rate of growth, would still show a fourth straight quarter of improvement. Second, we continue to expect a meaningful and sustained pick-up in productivity growth over coming quarters, even if the timing is harder to peg; a necessary, but not sufficient, condition is a sustained pick-up in business spending on core capital goods, which as of yet has not begun. Whether, or to what extent, we're correct on this point will have significant implications for real GDP growth, wage growth, profit margins, and inflation, which highlights the often underappreciated importance of productivity growth.
Q1 Unit Labor Costs: 2nd estimate Thursday, 6/5 Range: 2.4 to 5.4 percent Median: 4.9 percent SAAR	Q1: 1st est. = +4.7% SAAR	Up at an annualized rate of 5.4 percent. The flip side of the downward revision to Q1 productivity we anticipate is a faster pace of growth in unit labor costs. But, even if our forecast is on or near the mark, growth in unit labor costs is still trending lower.
May Nonfarm Employment Friday, 6/7 Range: 120,000 to 258,000 jobs Median: 190,000 jobs	Apr = 175,000 jobs	Up by 258,000 jobs, with private sector payrolls up by 202,000 jobs and public sector payrolls up by 56,000 jobs. There is less to our above-consensus forecast than meets the eye. Maybe. We have expressed our skepticism of the April employment report, as we think that the (by now) usual collection/measurement issues and what was an early end to the April establishment survey period biased the estimates of job growth (private and public sector) and average hourly earnings lower, biases amplified by unfavorable seasonal adjustment. If we're correct, either the initial April estimates will be revised higher or there will be payback in the May data, and while upward revisions to the initial April estimates would mean our May forecasts are too high, the average of the two months will be in line with our expectations. There is, of course, another possible outcome, which is that the initial April estimates will survive revision and our May forecast is just too high, which would mean the labor market has softened more sharply and suddenly than we believe to be the case. If so, we'll take our (forecasting) lumps and move on. We'll also be watching the dispersion of job growth across the broad industry groups, with job growth having become uncomfortably concentrated over recent months, and the data from the household survey on those working part-time due to slack business conditions.
May Manufacturing Employment Friday, 6/7 Range: 0 to 10,000 jobs Median: 5,000 jobs	Apr = 8,000 jobs	Up by 7,000 jobs.
May Average Weekly Hours Friday, 6/7 Range: 34.2 to 34.4 hours Median: 34.3 hours	Apr = 34.3 hours	Up to 34.4 hours.
May Average Hourly Earnings Friday, 6/7 Range: 0.2 to 0.4 percent Median: 0.3 percent	Apr = +0.2%	Up by 0.4 percent, for a year-on-year increase of 4.0 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.8 percent increase in aggregate private sector wage and salary earnings, leaving them up by 5.7 percent year-on-year.
May Unemployment Rate Friday, 6/7 Range: 3.8 to 4.0 percent Median: 3.9 percent	Apr = 3.9%	Down to 3.8 percent. One potential wild card in the household survey data is the influx, or lack thereof, of younger job seekers into the labor force. May and June are the months in which we typically see this, and while this tends to be far more pronounced in the June data, the varying timing of the end of the school year can wreak havoc on the data. Then again, we've for some time questioned the estimates of labor force participation and employment amongst the 16-to-24 year-old age cohort, so more noise in this category wouldn't exactly be a surprise. Of more relevance is participation and employment amongst the prime working age cohort, with the participation rate amongst this cohort above pre-pandemic norms.

This Economic Preview may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information, which is believed to be reliable and on past, current, and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Preview. The Contents of this Economic Preview reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Preview or with respect to any results arising therefrom. The Contents of this Economic Preview shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.