ECONOMIC PREVIEW

REGIONS

Week of July 1, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 30-31 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%	In addition to the June employment report (see below and Page 2), the highlights of this holiday-shortened week will be the May JOLTS data (Tuesday) and the minutes of the June FOMC meeting (Wednesday). The details of the JOLTS data – job vacancies, the hiring rate, and the quits rate – should affirm the premise of a cooling labor market. The FOMC minutes should offer some insight into the shift in the dot plot and the degree of conviction behind members' inflation and growth forecasts.
June ISM Manufacturing Index Monday, 7/1 Range: 48.0 to 50.0 percent Median: 49.1 percent	May = 48.7%	Up to 49.6 percent. When the ISM's headline index pushed above the 50.0 percent line in March, ending a run of sixteen straight months of contraction, it wasn't just the headline print that offered hope of a turnaround in the factory sector. Instead, it was the improvement in the firm and industry level details, apparent in the months leading up to the March survey, that offered hope, particularly broadly based growth in new orders. Those hopes, however, proved to have a short shelf life, with the headline index slipping back below 50.0 percent in April and a marked deterioration in the underlying details. Other indicators, including the regional Fed surveys, suggest no more than modest improvement in the ISM's June survey, and our focus will be on the firm and industry level details on new orders, which were notably weak in the May survey. Also, the prices paid index will likely show a sixth straight month of rising prices for non-labor inputs, which seems somewhat at odds with the paths of new orders and the headline index. As such, we'll look for signs of convergence in the June data, though the manner of any such convergence would matter.
May Construction Spending Monday, 7/1 Range: -0.6 to 0.5 percent Median: 0.2 percent	Apr = -0.1%	Up by 0.2 percent.
May Factory Orders Wednesday, 7/3 Range: -0.4 to 0.5 percent Median: 0.3 percent	Apr = +0.7%	Down by 0.4 percent.
June ISM Non-Manufacturing Index Wednesday, 7/3 Range: 51.5 to 54.2 percent Median: 52.5 percent	May = 53.8%	Down to 52.4 percent, with the June readings on new orders and prices paid the key metrics to watch as signs of the underlying health of the broad services sector.
May Trade Balance Wednesday, 7/3 Range: -\$77.0 to -\$70.6 billion Median: -\$76.0 billion	Apr = -\$74.6 billion	Widening to -\$76.9 billion, reflecting a larger deficit in the goods account.
June Nonfarm Employment Friday, 7/5 Range: 165,000 to 237,000 jobs Median: 190,000 jobs	May = 272,000 jobs	Up by 224,000 jobs, with private sector payrolls up by 186,000 jobs and public sector payrolls up by 38,000 jobs. While May job growth surprised to the upside, we saw that as no more than evening out the score from what we thought was an implausibly low estimate of April job growth and advised that the average of the two months was a more reliable gauge of the trend rate. Our forecast of June job growth would fall right in line with that trend, at least as the data now stand given that the pattern of downward revisions to initial estimates of private sector job growth remains firmly in place. In addition to what for some time have been notably low initial collection rates for the monthly establishment surveys, follow-up collection rates (firms have three chances to report data for any given month) have also fallen off sharply, thus lowering our confidence in the second and third estimates of job growth in any given month. Our sense is that the BLS's estimates of monthly nonfarm job growth remain biased to the upside, but that won't be apparent until the results of the annual benchmark revision process are ready in early-2025. That isn't to say the labor market is, or is on the verge of, crumbling, but simply that we do not think the labor market to be as vibrant as implied by the headline job growth prints. As for the June data, we look for health care, leisure and hospitality services, and state and local government to be the main drivers of overall job growth, which isn't exactly us going out on a limb given that these three industry groups have accounted for just under two-thirds of all job growth thus far in 2024. We'll be more interested in whether the June data show any signs of life in what have thus far been the laggards in 2024, specifically, mining/natural resources, manufacturing, finance, wholesale trade, and information services.

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
June Manufacturing Employment Range: 5,000 to 10,000 jobs Median: 10,000 jobs	Friday, 7/5	May = 8,000 jobs	<u>Up</u> by 7,000 jobs.
June Average Weekly Hours Range: 34.3 to 34.4 hours Median: 34.3 hours	Friday, 7/5	May = 34.3 hours	<u>Unchanged</u> at 34.3 hours.
June Average Hourly Earnings Range: 0.2 to 0.4 percent Median: 0.3 percent	Friday, 7/5	May = +0.4%	<u>Up</u> by 0.3 percent, for a year-on-year increase of 3.9 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.5 percent increase in aggregate private sector wage and salary earnings, leaving them up by 5.3 percent year-on-year.
June Unemployment Rate Range: 3.9 to 4.1 percent Median: 4.0 percent	Friday, 7/5	May = 4.0%	<u>Down</u> to 3.9 percent. Those seizing on the weak employment prints from the household survey over the past several months as signs of a dramatically weakening labor market pointed to the increase in the unemployment rate in May as bolstering their case. In keeping with our annoying habit of actually looking into the details of the data, however, we don't see the data from the household survey as telling a very coherent, let alone compelling, story. As we discussed in detail in our June *Monthly Economic Outlook*, the details of the household data show a sharp dichotomy in patterns amongst the "prime working age" cohort, i.e., 25-to-54 years old, and the, for lack of a better term, "non-prime" cohorts. To that point, the level of household employment was reported to have declined by 408,000 persons in May, leading to the increase in the unemployment rate. That decline, however, was more than entirely accounted for by a decline in employment amongst the 16-to-24 year-old cohort. Meanwhile, participation and employment amongst the prime working age cohort have continued to push higher, and one would have to go all the way back to February 2002 to find a higher participation rate amongst this cohort than the 83.9 percent rate posted in May. Were the labor market truly weakening to the extent claimed by those pointing to the household survey data, you'd think there would be signs of that amongst the largest block of the labor force. So far, there are no such signs. This isn't to dismiss what by many accounts has become a much less friendly labor market for those in the younger age cohorts, including recent college graduates, but we do not think the household survey is accurately reflecting the extent to which that is the case. We saw the reported increase in the unemployment rate in May to be no more than noise in the data that will reverse in the June data, but if the data show a larger influx of younger job seekers in June than is typically the case, our forecast of the unemployment rate will be too low. Either way, just as we do not think the labor market to be as vibrant as implied by the pace of job growth from the establishment survey, neither do we do think the labor market to be as stagnant as implied by the household survey measure of employment, particularly if, as we and others have been arguing, the population controls around the household survey are failing to pick up on what have been significant inflows of immigrants. Instead, we see the "truth" lying (wait, what?) somewhere between the two surveys.

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