ECONOMIC PREVIEW

Week of August 5, 2024

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 17-18 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%	Perhaps the most curious element of the July employment report, a report rife with noise, is the BLS's contention that Hurricane Beryl had "no discernable effects" on the July data, that despite Beryl impacting millions of people during the July survey period. The household survey data show 436,000 people did not work due to adverse weather, while 1.079 million people who normally work full-time worked only part-time due to adverse weather. Both are far and away the highest July numbers in the 48-year life of these series. The establishment survey shows a drop in the average length of the private sector workweek, which is entirely due to declines in the goods producing industries – mining/natural resources, construction, and manufacturing. Though weaker conditions can account for the drop in hours in the manufacturing sector, mining/natural resources and construction are the industry groups most susceptible to weather effects; in addition to the effects of Hurricane Beryl, the six-tenths of an hour decline in average weekly hours in construction could also reflect what across much of the U.S. were higher than normal July temperatures. While it is true the disruption in hours worked would not have impacted the unemployment rate, absences from work due to Beryl would have impacted payroll employment counts, and that initial claims for unemployment insurance benefits in Texas spiked in the wake of Beryl strongly suggests this was the case. We could go on (and on, and on, and on . . .) about additional issues that make us question the reliability of the July employment report, including the lowest July establishment survey collection rate since 1991. Be that as it may, the July employment report triggered a violent reaction in the financial markets, with equity prices plummeting along with yields on U.S. Treasury securities. This of course comes on the heels of the FOMC having held the Fed funds rate steady at this week's meeting, with many pointing to the July employment report as evidence of the FOMC being behind the curve. Indeed, many are arguing for a 50-basis point cut at the September FOMC meeting, with some going so far as to argue the FOMC should not wait until September to make such a move. We have for months pointed to what we've seen as clear signs of cooling demand for labor, and have over recent weeks pointed to what we've seen as clear signs of a slowing pace of economic activity. Indeed, those signs coupled with the significant deceleration in inflation have led us to characterize monetary policy as being needlessly restrictive. That said, we think the reaction to what we see as an obviously flawed July employment report is a bit overdone. To be sure, one could argue that equities had been "priced to perfection" and, if the trend pace of economic growth is slowing, some resetting would have been in order. What we question more is the reaction of those analysts arguing that the U.S. economy is now either in or on a one-way non-stop path to recession, pointing to the July employment report as cementing their case. We're just not there, and neither is, at least in our view, the U.S. economy.
July ISM Non-Manufacturing Index Monday, 8/5 Range: 49.0 to 53.3 percent Median: 51.0 percent	Jun = 48.8%	Up to 50.6 percent. This is a tricky one, and one that perhaps takes on added importance in the wake of the July employment report. The headline index slipped below the 50.0 percent break between contraction and expansion in June, and the deterioration in the details, particularly the firm level details was striking. That deterioration, however, has to be put in the context of how strong the firm level details of the May survey were. The question then becomes whether the decline in June was simply evening the score after the strength of the May data or marked the start of something more pernicious, with the latter the seemingly obvious answer for many given how weak the July ISM Manufacturing Index was and how surprisingly weak the June employment report was. We, however, lean toward the former answer, and expect the headline index to imply moderate growth in the broad services sector, and we'll pay particular attention to the new orders index and the firm level cuts on growing/contracting orders. Additionally, if the services sector is truly weakening as implied by the June survey, that should result in price pressures having become less intense and less broadly based, making the prices paid index another key metric to flag in the July data.
June Trade Balance Tuesday, 8/6 Range: -$76.2 to -$71.0 billion Median: -$72.5 billion	May = -$75.1 billion	Narrowing to -$72.4 billion, reflecting a smaller trade deficit than seen in May.

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