ECONOMIC PREVIEW

REGIONS

Week of August 26, 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: 4.875 to 5.125 percent Median Target Range Mid-point: 5.125 percent	Range: 5.25% to 5.50% Midpoint: 5.375%	We have for some time now argued that notably low collection rates for the BLS's establishment surveys, the basis of estimates of nonfarm employment, hours, and earnings, were eroding the reliability of those estimates as presented in the monthly employment reports. In addition to the post-pandemic drop in initial collection rates, we have also noted that second and third month collection rates have also fallen well below pre-pandemic norms. This means that the revisions to the initial estimates in the following two months are less reliable than would be the case had collection rates been higher, and we've argued that this would lead to larger than normal revisions in the BLS's annual benchmark revision process, in which the sample estimates are benchmarked to the universe of payroll tax returns that almost all employers are required to file. That having been said, even we were taken aback by the magnitude of the BLS's first estimate of the 2024 benchmark revisions – a downward revision of 818,000 jobs, which is equivalent to 0.5 percent of the level of total nonfarm employment. To put that in perspective, the average revision over the past ten years has been +/- 0.1 percent. Moreover, revisions to estimates of job growth in business and professional services, a block which comprises under fifteen percent of total nonfarm employment, account for forty-four percent of the total revision, which is just mind boggling. To be sure, this is but the preliminary estimate – the final estimate is due in February – and even with the downward revision, job growth over the period in question here, from April 2023 through March 2024, still averaged 174,000 jobs per month, right in line with the average over the two years prior to the pandemic. We have for some time thought that the underlying rate of job growth was neither as strong as implied by the establishment survey data nor as weak as implied by the household survey data, and those pointing to the latter as the more reliable gauge are overlooking what to us are clear problems with that series. With the FOMC now putting more emphasis on labor market conditions as they assess the appropriate path of the Fed funds rate, the light being shed by the monthly employment reports seems more like that given off by a pen light rather than by a powerful lighthouse.
July Durable Goods Orders Monday, 8/26 Range: -9.0 to 8.6 percent Median: 5.0 percent	Jun = -6.7%	Up by 7.8 percent. As with the June data, the wild swing we expect in top-line orders in the July data reflects Boeing booking new orders and reclassifying orders from prior months, none of which tells us much about the current state of cap ex or the broader manufacturing sector. Within the transportation equipment category, we'll be more interested in orders for motor vehicles and parts than in aircraft orders; with inventories having been more than right sized after significant disruptions in production, orders for motor vehicles and parts have turned lower and our forecast anticipates a third straight monthly decline in the July data. As for core capital goods orders, always the most important line item in the reports on durable goods orders, our forecast anticipates the July data showing a modest advance which would nonetheless leave orders hovering around the same range they've been stuck in since the start of 2023. Though obviously not helpful, financing costs are not the only impediment to a meaningful pick-up in cap ex, as a highly uncertain tax, regulatory, and trade environment is keeping many firms planted on the sidelines and it may not be until next year that they get back into the game. As such, we won't be surprised to see core capital orders remain range-bound for the rest of 2024.
July Durable Goods Orders: Ex-Trnsp. Monday, 8/26 Range: -0.3 to 0.3 percent Median: -0.1 percent	Jun = +0.4%	We look for ex-transportation orders to be up by 0.1 percent and look for core capital goods orders (orders for nondefense capital goods excluding aircraft & parts) to be up by 0.2 percent.
August Consumer Confidence Tuesday, 8/27 Range: 99.0 to 103.0 Median: 101.0	Jul = 100.3	Up to 101.6 though we feel more confident in our expectations for the magnitude of the change in the top-line index – small – than we do in our expectations for the direction of that change. Lower gasoline prices don't seem to have done much to improve consumer moods which, while at odds with typical patterns in the data on consumer confidence, is understandable given the lack of relief from higher prices in other areas. It is also worth noting that consumers' assessments of labor market conditions have dimmed over the past few months. Though subject to revision, the initial July estimate of the "jobs plentiful/jobs hard to get" spread is the narrowest since March 2021 and the spread has narrowed in six straight months. Growing worries over job and income prospects amongst a wider swath of consumers are likely contributing to the slower pace of growth in discretionary spending.

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July Advance Trade Balance: Goods Thursday, 8/29 Range: -\$101.2 to -\$94.4 billion Median: -\$97.9 billion	Jun = -\$96.6 billion	Widening to -\$101.2 billion. July typically marks the start of seasonal increases in imports of consumer goods as retailers begin ramping up for the holiday sales season, and concerns over shipping disruptions may have led many retailers to front-load that process. If we're wrong on this point, our forecast of imports will be too high and our forecast of the deficit in the goods account will also be too high.
Q2 Real GDP: 2nd estimate Thursday, 8/29 Range: 2.4 to 3.0 percent Median: 2.8 percent SAAR	Q2: 1st est. = +2.8% SAAR	Up at an annualized rate of 2.9 percent.
Q2 GDP Price Index: 2nd estimate Thursday, 8/29 Range: 2.3 to 2.4 percent Median: 2.3 percent SAAR	Q2: 1st est. = +2.3% SAAR	Up at an annualized rate of 2.3 percent.
July Personal Income Friday, 8/30 Range: 0.0 to 0.5 percent Median: 0.2 percent	Jun = +0.2%	Up by 0.3 percent. One source of uncertainty around our forecast is the path of private sector wage and salary earnings. The July employment report, which we've dismissed out of hand as being all noise no signal, suggests that aggregate private sector wage and salary earnings, the largest single component of personal income, were flat in July, reflecting meager job and wage growth and a drop in the average length of the private sector workweek. To our all noise no signal point, however, we do not expect the BEA data to be as weak and can point to prior instances, such as September 2017 when hurricane activity had a larger impact on the BLS data than the BEA data, to buttress our argument. Obviously, if we're wrong on this point, our forecast for top-line income growth will be too high. As it is, even with a boost from private sector labor earnings, our forecast still anticipates only middling growth in total personal income. Rental income has been notably weak over the prior few months, a run which we expect to have carried through July. We look for asset-based income (dividends & interest) to have been flat in July, and expect another meager advance in nonfarm proprietors' income, a proxy for small business profits. Aside from whatever impact noise may have had on the July data, of more relevance is that the pace of growth in labor earnings continues to slow but also continues to run ahead of inflation, which in turn puts a floor under consumer spending.
July Personal Spending Friday, 8/30 Range: 0.3 to 0.8 percent Median: 0.5 percent	Jun = +0.3%	Up by 0.5 percent. The rebound in unit motor vehicle sales and the July retail sales data showing a hefty increase in sales of other consumer durable goods suggest the BEA's measure of spending on consumer durables grew strongly in July. We also expect a modest increase in spending on nondurable consumer goods. Our forecast would yield the smallest monthly increase in nominal services spending since last August. The July data on industrial production suggest utilities outlays being much lower than we would have otherwise anticipated, which would weigh on services spending. With providers using steep discounting to lure buyers as demand has softened, nominal spending on discretionary services has been somewhat weak over recent months, and we think this pattern will have continued in the BEA's July data (note that real spending on discretionary services has been much firmer as the nominal data are adjusted to account for falling prices). Even if we are correct in expecting a boost from spending on consumer durables in the July data, a weakening trend rate of growth in services spending, which accounts for roughly two-thirds of all consumer spending, will act as a drag on growth in total spending. That said, we see slowing growth in consumer spending as part of the economy normalizing back toward pre-pandemic growth rates as opposed to something less benign.
July PCE Deflator Friday, 8/30 Range: 0.1 to 0.2 percent Median: 0.2 percent	Jun = +0.1%	Up by 0.1 percent, which would yield a year-on-year increase of 2.5 percent. We look for the core PCE Deflator to also be up by 0.1 percent, which would translate into a year-on-year increase of 2.7 percent.

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