ECONOMIC PREVIEW

REGIONS

Week of July 29, 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%	While we see virtually no chance of a Fed funds rate cut at this week's FOMC meeting, we do see it as likely that the Committee, including Chair Powell in his post-meeting press conference, will set the stage for a cut at the September meeting. With progress made to date on the inflation front and signs of a slowing pace of economic activity, a growing number of Committee members likely see increasing downside risks from keeping policy too restrictive for too long.
July Consumer Confidence Tuesday, 7/30 Range: 97.5 to 102.0 Median: 99.7	Jun = 100.4	Up slightly to 101.2, keeping the headline index within the fairly narrow range it has resided in over recent months. The University of Michigan's survey showed consumer sentiment falling to an eight month low in July, which many see as pointing to a decline in the Conference Board's measure of consumer confidence. We'll note, however, that the Conference Board's measure is more weighted toward assessments of jobs and incomes than is the University of Michigan measure, and consumers' assessments of labor market conditions have held up better than would be implied by the increase in the unemployment rate over recent months. Indeed, it is the "jobs plentiful/jobs hard to get" spread that we see as the most meaningful element of the Conference Board's survey, and that this spread has held up to the extent it has over recent months would be consistent with our premise that the rise in the jobless rate has been more noise than signal.
Q2 Employment Cost Index Wednesday, 7/31 Range: 0.8 to 1.2 percent Median: 1.0 percent	Q1 = +1.2%	Up by 0.9 percent, with wage costs up 0.9 percent and benefit costs up 0.8 percent. On an over-the-year basis, our forecast would leave the total ECI up 4.1 percent, with wage costs up 4.2 percent and benefit costs up 3.7 percent. The ECI is generally considered to be the most meaningful gauge of changes in labor costs as it is designed to track changes in compensation for the same jobs over time and as such is free of the mix bias, not to mention measurement issues, that plague the more widely followed average hourly earnings metric in the monthly employment reports. While we'll concede that the risks to our forecast, which would reflect the smallest quarterly increase in wage costs since Q2 2021, seem weighted to the upside, the more relevant point is that growth in wage costs is moderating. We do not, however, expect wage growth to settle all the way back into the trend rate that prevailed in the years prior to the pandemic, though the faster trend rate of growth we anticipate is consistent with our expectation of a faster trend rate of labor productivity growth.
Q2 Nonfarm Labor Productivity Thursday, 8/1 Range: 0.2 to 2.8 percent Median: 1.8 percent SAAR	Q1 = +0.2% SAAR	Up at an annualized rate of 2.2 percent. We know that real output in the nonfarm business sector grew at an annual rate of 3.3 percent in Q2, that aggregate private sector hours worked in the nonfarm business sector grew at an annual rate of 1.4 percent, and that hours worked amongst the self-employed grew at an annual rate of 3.0 percent. As in any given quarter, however, the great unknown here is how BLS will fill in the remaining gap in the aggregate hours worked calculation used to derive productivity growth. Still, even if our forecast of Q2 growth is too high, the far more relevant point here is that the trend rate of productivity growth is increasing, and we expect that trend rate to gather pace over coming quarters which in turn would have meaningful implications for wage growth, corporate profits, and inflation.
Q2 Unit Labor Costs Thursday, 8/1 Range: 0.0 to 3.5 percent Median: 1.8 percent SAAR	Q1 = +4.0% SAAR	Up at an annualized rate of 1.5 percent. If our forecast of productivity growth is too high, that would mean our forecast of growth in unit labor costs will be too low. Either way, we expect the productivity data will fall in line with other measures in showing slower growth in hourly compensation in Q2.
July ISM Manufacturing Index Thursday, 8/1 Range: 47.7 to 50.5 percent Median: 48.8 percent	Jun = 48.5%	Up to 48.8 percent. The various regional manufacturing surveys suggest the ISM's headline index was in contractionary territory for the twentieth time out of the last twenty-one months. The industry and firm level details have been even weaker than the headline index over recent months, and that is the first place we will look for any glimmers of improvement, particularly in the new orders component. We'll also be watching the prices paid index; recall that input price pressures intensified in the spring as the headline index suggested improving fortunes in the manufacturing sector, but with the headline index again in retreat, input price pressures have abated.
June Construction Spending Thursday, 8/1 Range: -0.4 to 0.8 percent Median: 0.2 percent	May = -0.1%	Up by 0.1 percent.

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June Factory Orders Friday, 8/2 Range: -3.6 to 3.2 percent Median: -3.1 percent	May = -0.5%	Down by 3.3 percent. Durable goods orders were pulverized by the dramatic plunge in orders for nondefense aircraft as Boeing logged cancellations to orders made over prior months. While that suggests the spike in business investment in transportation equipment seen in the Q2 GDP data will not be repeated in Q3, the more meaningful metric to watch is core capital goods orders. While the advance data show a hefty 1.0 percent increase in June, that came on the heels of a 0.9 percent decline in May, a larger decline than originally reported. This does, however, illustrate the point we've been making for some time now, which is that core capital goods orders have been more or less rangebound since early-2023. To that point, the level of core capital goods orders in June was just 0.3 percent above the level in January 2023, never straying far from that starting point, higher or lower, this whole time. There will at some point have to be meaningful and sustained growth in core capital goods orders if the recent upturn in productivity growth is to be sustained.
July Nonfarm Employment Friday, 8/2 Range: 70,000 to 225,000 jobs Median: 175,000 jobs	Jun = 206,000 jobs	Up by 169,000 jobs, with private sector payrolls up by 131,000 jobs and public sector payrolls up by 38,000 jobs. The monthly employment reports have become, at least to us, increasingly less reliable snap shots of labor market conditions, and that is true of the data from both the establishment survey and the household survey. Our sense is that job growth is neither as strong as has been implied by the establishment survey nor as anemic as has been implied by the household survey, which would be in keeping with the signals being sent by other labor market indicators. After taking in the headline job growth number, we'll go straight to the collection rate for the July establishment survey and the revisions to prior estimates of job growth in May and June. We have no reason to think that either of the long-running patterns of notably low survey collection rates and consistent downward revisions to the initial estimates of job growth has run its course. There are a few factors that could impact the July data. First, the effects of Hurricane Beryl were still being felt during the establishment survey week, and the data on initial jobless claims in Texas suggest some downside risk to the estimate of payroll employment. Second, weather effects – Hurricane Beryl, higher than normal temperatures – could distort weekly hours, and if this is indeed the case it follows that the estimate of average hourly earnings, which is no more than a residual estimate, will also be distorted. Third, the first two weeks of July traditionally marked shutdowns of motor vehicle production facilities as producers geared up for the new model year, and this was accounted for in the seasonal adjustment process. To the extent this process has been disrupted, resulting in fewer seasonal layoffs, there is the risk that seasonal adjustment will lead to manufacturing payrolls being overstated. In other words, there could be an even higher degree of noise in the July data than has, unfortunately, typically been the case. Though the noise, it seems clear that the trend rate of job growth is slowing, and with job growth having been so concentrated amongst three industry groups – health care, leisure and hospitality services, government – a slowdown in any, let alone all, of these drivers will have an outsized impact on overall job growth.
July Manufacturing Employment Friday, 8/2 Range: -10,000 to 10,000 jobs Median: -7,000 jobs	Jun = -8,000 jobs	Down by 4,000 jobs.
July Average Weekly Hours Friday, 8/2 Range: 34.1 to 34.4 hours Median: 34.3 hours	Jun = 34.3 hours	Unchanged at 34.3 hours.
July Average Hourly Earnings Friday, 8/2 Range: 0.2 to 0.4 percent Median: 0.3 percent	Jun = +0.3%	Up by 0.2 percent, for a year-on-year increase of 3.6 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.3 percent increase in aggregate private sector wage and salary earnings, leaving them up by 5.2 percent year-on-year.
July Unemployment Rate Friday, 8/2 Range: 4.0 to 4.2 percent Median: 4.1 percent	Jun = 4.1%	Down to 4.0 percent. We've seen the rising unemployment rate over recent months as more noise than signal, and expect some payback in the July data, and would not be at all surprised to see the jobless rate slip back to 3.9 percent. The key, at least for us, components of the household survey data will be the metrics pertaining to the 25-to-54 year-old cohort, the "prime working age" cohort.

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