

# ECONOMIC PREVIEW



REGIONS

Week of April 29, 2024

## Indicator/Action

### Economics Survey:

## Last

### Actual:

### Regions' View:

<p><b>Fed Funds Rate: Target Range Midpoint</b>  <i>(After the April 30-May 1 FOMC meeting):</i>                  Target Range Mid-point: 5.375 to 5.375 percent                  Median Target Range Mid-point: 5.375 percent</p>	<p>Range: 5.25% to 5.50%                  Midpoint: 5.375%</p>	<p>Amid a flurry of economic data releases, this week's FOMC meeting figures to be fairly uneventful. With no change in the Fed funds rate on tap and no new economic and financial projections, this week's meeting will be mostly about messaging with inflation proving to be more persistent than had been anticipated coming into this year. The passage noting that the risks to achieving the Committee's employment and inflation goals "are moving into better balance" included in the post-meeting policy statement at the March meeting will likely be modified with progress toward the inflation goal having stalled. In his post-meeting press conference, Chair Powell will likely reinforce the point that the Committee does not yet have sufficient confidence that inflation is firmly on a path back to their 2.0 percent target to put Fed funds rate cuts on the table. Chair Powell will almost surely find himself addressing questions pertaining to the Fed's independence in light of recent rumblings. It is possible that this week's meeting could see the FOMC announce changes to the rate at which the Fed balance sheet is being pared down, though we see the June meeting as being the more likely timing. Given the diminished confidence in inflation returning to the FOMC's 2.0 percent target rate, the Committee could be worried that announcing a slower pace of balance sheet reduction could send a dovish signal that would contribute to easing financial conditions. A June announcement in conjunction with an updated set of economic and financial projections would seem a better fit in terms of communications strategies.</p> <p>This week's data releases will also be of interest to the FOMC, particularly Tuesday's release of the Q1 Employment Cost Index. Any upside surprise in the read on labor compensation costs would not sit well amongst a group already on edge about inflation pressures. The April employment report (see Page 3) will likely show another month of robust job growth, though the heavy concentration of job growth amongst a few industry groups is becoming, at least for us, an increasing concern.</p>
<p><b>Q1 Employment Cost Index</b>                      Tuesday, 4/30                  Range: 0.8 to 1.1 percent                  Median: 1.0 percent</p>	<p>Q4 = +0.9%</p>	<p><u>Up</u> by 1.1 percent, with the wages component up by 1.1 percent and the benefits component up by 0.9 percent. Our forecast would leave the total ECI up 4.1 percent year-on-year, with wage costs up 4.3 percent and benefit costs up 3.5 percent. On a sequential basis, wage growth as measured in the monthly employment reports accelerated a bit in Q1, and we expect the Q1 data on labor productivity and costs to show a similar acceleration. Our forecast would have the ECI fall in line with those measures. The ECI is seen by most, including the FOMC, as the most reliable gauge of changes in labor compensation costs, in part because it is free of the mix bias that can impact the more widely publicized average hourly earnings metric. Our forecast anticipates some sequential acceleration in wage costs but would still yield the same year-on-year increase seen in Q4 2023. While some will note that this is above the 3.5 percent rate of wage growth seen as consistent with the FOMC's 2.0 percent target, that does not account for the acceleration in productivity growth seen over recent quarters (though the Q1 data will buck that trend). That the quits rate from the JOLTS data has dipped below pre-pandemic norms suggests to us that wage growth will moderate further over coming quarters, and we continue to expect wage growth to ultimately settle somewhere between the pre-pandemic rate and the peak rate seen from mid-2022 through early-2023.</p>
<p><b>April Consumer Confidence</b>                      Tuesday, 4/30                  Range: 101.0 to 108.5                  Median: 104.0</p>	<p>Mar = 104.7</p>	<p><u>Down</u> to 102.8 in what could come down to a battle between consumers' feelings about inflation and consumers' assessments of labor market conditions. Gasoline prices have risen sharply over the past several weeks, up over six percent in March and over five percent in April, contributing to consumers expressing renewed concerns over inflation. At the same time, however, consumers' assessments of labor market conditions have become even more favorable over the past few months, helping alleviate consumers' concerns over their own job and income prospects. It is worth noting that the expectations component of the Conference Board's aggregate index has deteriorated sharply thus far in 2024, and we look for the April survey to show further deterioration in the expectations component.</p>
<p><b>March Construction Spending</b>                      Wednesday, 5/1                  Range: -0.4 to 1.0 percent                  Median: 0.3 percent</p>	<p>Feb = -0.3%</p>	<p><u>Up</u> by 0.3 percent.</p>

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<p><b>April ISM Manufacturing Index</b>            Wednesday, 5/1            Range: 48.5 to 51.5 percent            Median: 50.0 percent</p>	<p>Mar = 50.3%</p>	<p><u>Down</u> to 50.2 percent. While we did not expect to see it as soon as March, we were not surprised to see the headline index push over the 50.0 percent break between contraction and expansion, as we had been pointing to what we saw as meaningful improvement in many of the underlying details in the prior two months, suggesting that an end to the long-running contraction in the manufacturing sector was at hand. Still, it isn't clear whether the ISM's headline index will have held that 50.0 percent line in April given the weakness seen in some of the regional Fed surveys. Either way, we place far more emphasis on the firm and industry level dynamics, in terms of the shares reporting increases/decreases in new orders, production, employment, delivery times, and order backlogs. The manner in which the ISM's headline index, a diffusion index, is calculated makes it possible that the April data will show the headline index dipping below 50.0 percent while the underlying details point to further improvement, and our general rule for economic data releases is that the details always matter much more than the headline. One component to watch, even though it does not enter into the calculation of the headline index, will be the prices paid component, which has shown rising prices for non-labor inputs in each of the past three months after a lengthy run of falling prices. This turn was one of the first indications that activity in the factory sector was gathering pace, and we expect the April data to show continued increases in non-labor input prices. The downside, of course, is that steadily rising input prices will ultimately be reflected in upward pressure on finished goods prices amid frustratingly persistent inflation.</p>
<p><b>Q1 Nonfarm Labor Productivity</b>            Thursday, 5/2            Range: -1.0 to 1.8 percent            Median: 0.8 percent SAAR</p>	<p>Q4 = +3.2% SAAR</p>	<p>Up at an annualized rate of 0.2 percent. Real output in the nonfarm business sector grew at an annual rate of 1.3 percent in Q1, the weakest performance since Q2 2022. At the same time, the monthly employment reports show private sector hours worked rose at an annual rate of 1.0 percent, while hours worked amongst the self-employed grew at an annual rate of over six percent. Allowing for an increase in hours worked amongst unpaid family members, growth in aggregate hours worked in Q1 should come close to matching growth in real business output. The operative word here is "should," as the measure of aggregate hours worked in the productivity data tends to, let's say, move in mysterious ways. Even if our forecast proves too low, Q1 labor productivity growth will easily be slower than the average annualized growth of 3.7 percent seen over the prior three quarters. As we always note, however, the productivity data can be volatile from quarter-to-quarter, making it more important to focus on the underlying trends. To that point, our forecast would leave year-on-year growth higher for a fourth straight quarter and would yield a further increase in the eight-quarter moving average, which is our preferred gauge of trend productivity growth. Though still a long way from a repeat of the "productivity miracle" seen over 1996-2005, we do think productivity growth is firmly trending higher, and we think that trend has much further to run, dips in the path such as what we expect in the Q1 data notwithstanding.</p>
<p><b>Q1 Unit Labor Costs</b>            Thursday, 5/2            Range: 1.7 to 6.4 percent            Median: 3.2 percent SAAR</p>	<p>Q4 = +0.4% SAAR</p>	<p><u>Up</u> at an annualized rate of 5.1 percent. If we are correct in anticipating only modest growth in labor productivity, that will in turn yield an outsized increase in unit labor costs, or, the labor costs of each unit of output produced. But, the volatility in measured labor productivity extends into the data on unit labor costs, making it just as important to focus on the underlying trends, and if productivity growth is trending higher, unit labor costs will be trending lower. To that point, even the Q1 increase our forecast anticipates would still leave unit labor costs trending lower, a trend we also expect to persist.</p>
<p><b>March Trade Balance</b>            Thursday, 5/2            Range: -\$71.1 to -\$66.8 billion            Median: -\$69.5 billion</p>	<p>Feb = -\$68.9 billion</p>	<p><u>Widening</u> to -\$70.8 billion.</p>
<p><b>March Factory Orders</b>            Thursday, 5/2            Range: 0.3 to 2.9 percent            Median: 1.5 percent</p>	<p>Feb = +1.4%</p>	<p><u>Up</u> by 1.9 percent.</p>

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<b>April Nonfarm Employment</b> Range: 150,000 to 280,000 jobs Median: 244,000 jobs	Friday, 5/3	Mar = +303,000 jobs	<p><u>Up</u> by 232,000 jobs, with private sector payrolls <u>up</u> by 181,000 jobs and public sector payrolls <u>up</u> by 51,000 jobs. The initial estimates of monthly job growth over the past several months have surprised to the upside yet have been prone to sizable downward revision over subsequent months. We attribute this pattern to what remain notably low initial collection rates to the BLS's monthly establishment survey, and unless and until these rates improve, we will continue to attach less weight to the initial estimates of job growth than do many analysts and market participants. While the March employment report was somewhat of an outlier, as the net revision to estimates of job growth over the prior two months was small and positive, that two-month revision will be the first detail of the April report we'll go to. Trend job growth remains stronger than many had anticipated would be the case at this point, just not as strong as the initial estimates have implied.</p> <p>More fundamentally, we are increasingly concerned by the high concentration of job growth amongst three industry groups – leisure and hospitality services, health care and social assistance, and government. After accounting for 74.2 percent of all nonfarm job growth in 2023, these three industry groups accounted for 63.1 percent of nonfarm job growth in 2024's first quarter. To some extent, this simply reflects these three being later to recover from pandemic-related job losses than were other industry groups. That said, we will also note that during the first quarter of 2024, payrolls in manufacturing, wholesale trade, and financial services fell slightly, while payrolls in mining/natural resources and information services rose only slightly. Moreover, while payrolls in construction and retail trade are reported to have risen smartly in Q1, we think these gains to be flattered by seasonal adjustment. In other words, overall job growth is vulnerable to a slowdown in the pace of hiring in any, let alone all, of the “big three” drivers of job growth, and while that likely won't have been the case in April, such a slowdown does seem inevitable at some point. To be sure, there is a difference between a slower pace of hiring and a rising pace of layoffs, and while we have yet to see the latter, a slower pace of hiring will still put some upward pressure on the unemployment rate.</p>
<b>April Manufacturing Employment</b> Range: -5,000 to 12,000 jobs Median: 5,000 jobs	Friday, 5/3	Mar = 0 jobs	<u>Up</u> by 6,000 jobs.
<b>April Average Weekly Hours</b> Range: 34.3 to 34.4 hours Median: 34.4 hours	Friday, 5/3	Mar = 34.4 hours	<u>Unchanged</u> at 34.4 hours.
<b>April Average Hourly Earnings</b> Range: 0. to 0.4 percent Median: 0.3 percent	Friday, 5/3	Mar = +0.3%	<u>Up</u> by 0.3 percent, for a year-on-year increase of 4.0 percent, which would be the smallest such increase since June 2021. Our calls on job growth, hours worked, and hourly earnings would yield a 0.4 percent increase in aggregate private sector wage and salary earnings, leaving them up by 6.0 percent year-on-year.
<b>April Unemployment Rate</b> Range: 3.7 to 3.9 percent Median: 3.8 percent	Friday, 5/3	Mar = 3.8%	<u>Down</u> to 3.7 percent.
<b>April ISM Non-Manufacturing Index</b> Range: 50.5 to 53.5 percent Median: 52.0 percent	Friday, 5/3	Mar = 51.4%	<u>Up</u> to 52.7 percent. Our take is that the ISM's survey has shown the expansion in the broad services sector settling into a more moderate pace over the past several months. As with the ISM's survey of the manufacturing sector, we'll scour the firm and industry level details of the services sector survey for signs of flagging momentum in new orders and overall business activity. It will also be worth watching for any signs of relief in the prices paid index, which in the services sector survey has been at or above the 50.0 percent mark, indicating rising prices for non-labor inputs, for eighty-two straight months. Still, at 53.4 percent, the March read was the lowest for the prices paid index since March 2020.

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