ECONOMIC PREVIEW

REGIONS

Week of September 30, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the October 29-30 FOMC meeting):* Target Range Midpoint: 1.625 to 1.875 percent Median Target Range Midpoint: 1.875 percent	Range: 1.75% to 2.00% Midpoint: 1.875%	What this week's slate of data releases lacks in quantity is more than made up for in significance. The ISM Manufacturing Index will provide a key read on the state of the factory sector. Even if, as our forecast anticipates, the headline index shows some fight after having fallen to its lowest level in over three years in August, the broader narrative of a factory sector struggling against stiff headwinds is not likely to change. The data on factory orders and shipments will not be kind to those harboring hopes of business investment spending firming up any time soon. While a spike in defense orders boosted durable goods orders in August, the underlying details on core capital goods orders continue to soften. U.S. consumers are, at least so far, countering the weakness in the industrial sector of the economy, but this week's read on September motor vehicle sales (due on Tuesday, we look for an annualized sales rate of 16.8 million units) offers the first glance at consumer spending in the wake of a middling 0.1 percent increase in personal consumption expenditures in August. We weren't as alarmed by that as some others were, as sharply lower utilities outlays weighed down spending on services, which account for over two-thirds of total consumer spending, while spending on goods posted another solid advance. As long as consumer confidence holds up, so too will consumer spending, and it is the labor market that holds the key to consumer confidence. While September job growth was likely in line with the slower pace seen over recent months, job growth remains more than sufficient to keep the unemployment rate steady while keeping upward pressure on wage growth, which in turn will support further growth in consumer spending.
September ISM Manufacturing Index Tuesday, 10/1 Range: 48.0 to 51.5 percent Median: 50.5 percent	Aug = 49.1%	Up to 50.1 percent. In the August data, the ISM's index underperformed the regional manufacturing surveys. We look for the reverse to be the case in the September data, with the ISM's index, for lack of a better term, outperforming the regional surveys which, on the whole, softened in September. Either way, the more significant point is that the manufacturing sector remains weak, plagued by lingering uncertainty over trade, still-high inventories, a slowing pace of motor vehicle sales, and Boeing's ongoing issues. We'll be most interested in the ISM's gauge of new orders, which in August fell to a level last seen during the 2007-09 recession. Our forecast anticipates a modest rebound in September, but one that would still leave the new orders index below the 50.0 percent mark.
August Construction Spending Tuesday, 10/1 Range: 0.0 to 0.9 percent Median: 0.4 percent	Jul = +0.1%	Up by 0.8 percent.
August Factory Orders Thursday, 10/3 Range: -1.0 to 0.2 percent Median: -0.5 percent	Jul = +1.4%	Unchanged. The advance data show durable goods orders were up slightly in August, but only because of a spike in defense capital goods orders as core capital goods orders were down for a second straight month. This is a reflection of fading business investment in equipment and machinery, which will be a drag on Q3 real GDP growth. Should this weakness persist, it will have negative implications for productivity and the economy's sustainable longer-term trend rate of growth.
Sep. ISM Non-Manufacturing Index Thursday, 10/3 Range: 54.0 to 56.4 percent Median: 55.1 percent	Aug = 56.4%	Down to 54.4 percent.
September Nonfarm Employment Friday, 10/4 Range: 100,000 to 190,000 jobs Median: 145,000 jobs	Aug = +130,000 jobs	Up by 151,000 jobs, with private sector payrolls up by 133,000 jobs and public sector payrolls up by 18,000 jobs. The first thing to look for will be the revision to the initial estimate of August job growth. While the BLS's initial estimate of August job growth has fallen well short of the mark over the past decade, we look for this year's revision to be smaller than in past years, in part because the response rate to the establishment survey was higher than normal for the month of August. The second thing to look for will be public sector job growth – advance hiring for the 2020 Census contributed 25,000 jobs to overall job growth in August, but some of the Census hiring came after the BLS's August survey week, meaning it will be captured in the September data. Finally, look for how broadly based hiring was across private sector industry groups. The breadth of hiring has narrowed over recent months which, thus far, is more notable than it is alarming. If that continues, however, it would be a troubling sign that the current expansion is running out of steam.
September Manufacturing Employment Friday, 10/4 Range: -4,000 to 7,000 jobs Median: 4,000 jobs	Aug = +3,000 jobs	Up by 3,000 jobs.

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September Average Weekly Hours Range: 34.4 to 34.4 hours Median: 34.4 hours	Friday, 10/4	Aug = 34.4 hours	Unchanged at 34.4 hours. As with the narrower base of hiring across private sector industry groups, the deceleration in growth of aggregate hours worked is not yet setting off alarm bells, but if it continues it would be a troubling sign of a meaningful deterioration in the demand for labor.
September Average Hourly Earnings Range: 0.2 to 0.4 percent Median: 0.3 percent	Friday, 10/4	Aug = +0.4%	Up by 0.2 percent, for a year-on-year increase of 3.2 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 4.5 percent year-on-year.
September Unemployment Rate Range: 3.6 to 3.7 percent Median: 3.7 percent	Friday, 10/4	Aug = 3.7%	Unchanged at 3.7 percent. If the jobless rate holds steady as we expect, it would mark the fourth consecutive month at 3.7 percent. We had expected the jobless rate to drift lower, but a pleasant surprise in the data has been the increase in labor force participation amongst the 25-to-54 year-old age cohort, known as the "prime working age" population. While we do not expect the participation rate amongst this age cohort to return to where it was prior to the 2007-09 recession, we do think there is further upside room. If that turns out to be the case, the unemployment rate will likely be somewhat range bound over coming months.
August Trade Balance Range: -$55.5 to -$53.5 billion Median: -$54.6 billion	Friday, 10/4	Jul = -$54.0 billion	Widening slightly to -$54.4 billion. The advance data on trade in goods show only a slightly larger deficit in the goods account, contrary to the material widening our forecast anticipated. We had anticipated a jump in imports ahead of more punitive tariffs taking effect in September. This could, however, could simply be a timing issue, with any such jump in imports turning up in the September data. The bottom line is that trade will have been a drag on Q3 real GDP growth.

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