ECONOMIC PREVIEW

REGIONS

Week of February 3, 2020

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 17-18 FOMC meeting):* Target Range Mid-point: 1.625 to 1.625 percent Median Target Range Mid-point: 1.625 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	This week's reports on trade and construction spending in December will offer initial hints on pending revisions of the initial estimate of Q4 real GDP growth. The generally upbeat Fed surveys of regional manufacturing activity raise the bar for the ISM Manufacturing Index. The January employment report (see Page 2) may not be a game changer, but could force us to reassess our view of the labor market.
January ISM Manufacturing Index Monday, 2/3 Range: 47.0 to 51.0 percent Median: 48.8 percent	Dec = 47.2%	Up to 49.6 percent. The ISM's index has been a bit of an outlier of late, lagging other indicators of stabilization, if not modest improvement, in conditions in the factory sector. As such, our forecasts of the ISM Manufacturing Index have been too high over the past two months, but, this time we really mean it. The regional Fed surveys of manufacturing activity in January were generally positive, and are consistent with our expectation of improvement in the ISM index. Our forecast anticipates the new orders index will test the 50.0 percent mark for the first time since July, though, admittedly, this may be a bit ambitious on our part. Also, watch for the number of industry groups reporting growth in activity in January – this number has been strikingly low over the past four months, and our forecast is implicitly assuming a broader base of growth in factory sector activity in January. Even if our forecast is on or near the mark, however, the factory sector is by no means out of the woods, with Boeing's halt of production of the 737 Max casting a cloud over Q1 2020, if not beyond, and potential downside risks to global growth from the coronavirus.
December Construction Spending Monday, 2/3 Range: 0.2 to 1.2 percent Median: 0.4 percent	Nov = +0.6%	Up by 0.6 percent.
December Factory Orders Tuesday, 2/4 Range: -0.5 to 2.0 percent Median: 1.2 percent	Nov = -0.7%	Up by 1.4 percent. Even if our forecast is on or near the mark, the increase in total orders would be all hat and no cattle, as a true Texan might put it. We know from the advance data that the 2.4 percent increase in durable goods orders in December reflects a jump in orders for defense capital goods, making up for the sharp decline in November, with orders in the two months impacted by the timing of appropriations bills. As to the numbers that reflect business investment spending, the December data are a disappointment, with core capital goods orders sinking by 0.9 percent and core capital goods shipments dropping for the sixth time in the past seven months.
December Trade Balance Wednesday, 2/5 Range: -$48.7 to -$44.9 billion Median: -$48.0 billion	Nov = -$43.1 billion	Widening to -$48.3 billion. The advance data show a material widening in the deficit in the goods account. While that will be tempered by what our forecast assumes will be a larger surplus in the services account, the net result will be a larger total trade deficit in December. Even with a larger gap in December, what for Q4 as a whole was a smaller trade deficit was a potent boost to real GDP growth, but we see that as a one-off occurrence rather than the start of a sustained narrowing of the trade deficit.
Jan. ISM Non-Manufacturing Index Wednesday, 2/5 Range: 54.4 to 56.2 percent Median: 55.0 percent	Dec = 55.0%	Down to 54.6 percent.
Q4 Nonfarm Labor Productivity Thursday, 2/6 Range: 0.1 to 2.7 percent Median: 1.4 percent SAAR	Q3 = -0.2% SAAR	Up at an annualized rate of 2.7 percent. Even if our way above consensus forecast is on or near the mark, we would put as much significance in measured Q4 productivity growth as we did in the reported decline in productivity in Q3, which is none at all. The decline in productivity in Q3 reflected nothing more than a nonsensically large increase in aggregate hours worked as measured in the productivity data. If you think we're being harsh, that's fine – we'll leave it up to you to properly characterize a 1,820 percent increase in hours worked by unpaid family members (okay, sure, that's an annualized increase, so there's that) that, despite the small share of such workers in overall nonfarm employment, was enough to distort the Q3 figure on aggregate hours worked. Our forecast simply assumes that increase will be unwound in the Q4 data which, combined with 2.5 percent (annualized) growth in real nonfarm business output, yields our way above-consensus forecast of productivity growth. This is an instructive, even if highly annoying, example of why we routinely stress that one should focus on the trend rate of growth rather than measured productivity growth in any given quarter. To that point, the average of Q3 growth and our forecast of Q4 growth leaves you right at what had been the underlying trend rate of productivity growth. The swings in the 2H 2019 data do little more than deflect attention from what had been a steady, albeit somewhat slow, improvement in the trend rate of productivity growth. Our forecast would put full-year productivity growth at 1.8 percent, the best annual growth since 2010.

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Q4 Unit Labor Costs Thursday, 2/6 Range: -0.4 to 2.4 percent Median: 1.1 percent SAAR	Q3 = +2.5% SAAR	Down at an annualized rate of 0.4 percent, which is nothing more than the flip side of the jump in productivity growth our forecast anticipates, with just as little meaning. As with productivity growth, the trend rate of growth in unit labor costs (or, the labor cost of each unit of output produced) lies between the Q3 and Q4 rates. Our forecast would put full-year 2019 growth in unit labor costs at 1.6 percent.
January Nonfarm Employment Friday, 2/7 Range: 127,000 to 190,000 jobs Median: 163,000 jobs	Dec = +145,000 jobs	Up by 164,000 jobs, with private sector payrolls up by 153,000 jobs and public sector payrolls up by 11,000 jobs. The January data incorporate the annual benchmark revisions to prior estimates of job growth, and we know from the BLS's initial comments that this year's revisions were to the downside and larger than is typical. Indeed, if the initial estimate that the level of employment as of March 2019 will be lowered by 501,000 jobs holds, that would be the second largest downward revision over the past two decades, second only to 2009. The pending revisions add a layer of uncertainty to our forecast of January job growth. Another source of uncertainty to forecasts of January job growth in any given year is the unwinding of holiday season hiring in retail trade and warehousing/distribution operations, which can, and often does, lead to distortions in the seasonally adjusted data. More broadly, we expect a weak print on job growth in the goods producing industries and a trend-like increase in job growth amongst private sector service providing industries. As do most analysts, we expect a slower pace of job growth in 2020, but what will be a more telling indicator of the state of the broader economy will be the breadth of hiring across private sector industry groups. Amidst a slowing pace of job growth, hiring remained broad based across industry groups in 2019, suggesting the expansion has further to run. Should that change in 2020, it would serve as a warning sign that the expansion may be running out of steam.
January Manufacturing Employment Friday, 2/7 Range: -20,000 to 8,000 jobs Median: -6,000 jobs	Dec = -12,000 jobs	Down by 4,000 jobs.
January Average Weekly Hours Friday, 2/7 Range: 34.3 to 34.4 hours Median: 34.3 hours	Dec = 34.3 hours	Up to 34.4 hours.
January Average Hourly Earnings Friday, 2/7 Range: 0.1 to 0.4 percent Median: 0.3 percent	Dec = +0.1%	Up by 0.4 percent, for a year-on-year increase of 3.2 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.8 percent increase in aggregate private sector wage and salary earnings, leaving them up 4.3 percent year-on-year. Calendar effects (i.e., an early survey period) likely held down measured wage growth in December, and our forecast anticipates payback for this in the January data. If the length of the workweek does not increase as we expect (see above), our forecast of growth in aggregate wage and salary earnings will be too high. Either way, the more important point is that aggregate labor earnings continue to easily outpace inflation.
January Unemployment Rate Friday, 2/7 Range: 3.5 to 3.6 percent Median: 3.5 percent	Dec = 3.5%	Unchanged at 3.5 percent.

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