ECONOMIC PREVIEW

REGIONS

Week of March 2, 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%	We would say last week was a week to forget, but at this point it isn't clear whether the market turmoil that dominated last week is behind us. Financial markets are pricing in multiple Fed funds rate cuts by year-end in response to the effects of the coronavirus. To be sure, lower interest rates will do nothing to reverse a supply shock, but that does not mean the FOMC won't act. Overall financial conditions have begun to tighten, which will be a source of concern to the FOMC should it continue, and with the exception of the 30-year bond, the entire Treasury yield curve is now below the Fed funds rate. That said, if the FOMC does cut rates in response out of concern over the fallout from the coronavirus, will they then be prepared to take back those cuts once the virus has subsided and economic activity returns to normal and, perhaps more significantly, will market participants be prepared for them to do so. There are no easy answers to any of this, and while the FOMC would like the luxury of time, waiting and watching may not be an option for much longer.
February ISM Manufacturing Index Monday, 3/2 Range: 48.0 to 54.5 percent Median: 50.5 percent	Jan = 50.9%	Up to 52.6 percent. We've wavered between upbeat and downbeat calls on the ISM's gauge of February manufacturing activity. The regional Fed surveys have been generally upbeat, suggesting an increase in the ISM index, but a factory sector still looking to regain its stride could be knocked off balance by the effects of the coronavirus. So, while we went with our upbeat call, we don't have a lot of conviction in that call, to the point that nothing we see from ISM will surprise us. Even if our upbeat call proves correct, we would not expect a repeat in the March data. Along those lines, each month the ISM shares comments from survey respondents, offering a glimpse of what firms in various industry groups are seeing. While we always find these comments to be of interest, we'll be especially interested in the latest batch.
January Construction Spending Monday, 3/2 Range: 0.0 to 1.2 percent Median: 0.6 percent	Dec = -0.2%	Up by 0.9 percent.
Feb. ISM Non-Manufacturing Index Wednesday, 3/4 Range: 52.5 to 56.0 percent Median: 55.0 percent	Jan = 55.5%	Down to 54.4 percent.
Q4 Nonfarm Labor Productivity – rev Thursday, 3/5 Range: 1.0 to 1.5 percent Median: 1.3 percent SAAR	Q4 – pre = +1.4% SAAR	Up at an annualized rate of 1.0 percent. The revised Q4 GDP data show slightly slower growth in real nonfarm business output relative to the initial estimate, which accounts for a small portion of the downward revision in Q4 productivity growth our forecast anticipates. More significantly, the BLS's initial estimate of Q4 productivity growth did not incorporate the benchmark revisions to the establishment employment data, and those revisions show materially faster growth in aggregate private sector hours worked in Q4 than initially estimated. As such, faster growth in hours worked will translate into slower Q4 productivity growth than the BLS first estimated.
Q4 Unit Labor Costs - rev Thursday, 3/5 Range: 0.9 to 1.7 percent Median: 1.4 percent SAAR	Q4 – pre = +1.4% SAAR	Up at an annualized rate of 0.9 percent. While a slower rate of productivity growth, relative to the initial estimate, would yield an upward revision to growth in unit labor costs, we look for downward revisions to Q4 growth in labor compensation to more than offset this. The BLS data from the *Quarterly Census of Employment and Wages* (QCEW) put 2H 2019 growth in private sector wage and salary earnings on a much weaker trajectory than had previously been estimated. To the extent the QCEW data are incorporated into the revised productivity data, the result should be significantly slower Q4 growth in unit labor costs than initially estimated, even allowing for what we expect will be a slower rate of productivity growth.
January Factory Orders Thursday, 3/5 Range: -0.5 to 0.6 percent Median: -0.1 percent	Dec = +1.8%	Up by 0.2 percent. The advance data on durable goods orders show core capital goods orders were even stronger than our above-consensus forecast anticipated, but a decline in orders for transportation goods pulled total durable goods orders lower. We look for the final January data to show a modest increase in orders for nondurable goods neutralizing that decline in durable goods orders, leaving total orders little changed. As we noted in last week's *Preview*, however, the January data capture the period after the phase-one U.S./China trade deal but before the extent and effects of the coronavirus began to make themselves known. As such, the strength in core capital goods orders seen in the January data is unlikely to be sustained.
January Trade Balance Friday, 3/6 Range: -$51.0 to -$45.5 billion Median: -$47.1 billion	Dec = -$48.9 billion	Narrowing to -$45.9 billion.

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Indicator/Action Economics Survey:	Last Actual:	Regions' View:
February Nonfarm Employment Friday, 3/6 Range: 140,000 to 249,000 jobs Median: 170,000 jobs	Jan = +225,000 jobs	<u>Up</u> by 162,000 jobs, with private sector payrolls <u>up</u> by 136,000 jobs and public sector payrolls <u>up</u> by 26,000 jobs. By our estimate, seasonal adjustment noise stemming from atypically warm weather inflated reported January job growth by roughly 70,000 jobs, and to the extent we are correct on that point, there will be payback in the February data. Keep in mind this is the same pattern seen in 2019, the difference being that these effects were more pronounced last year – after having been juiced up by atypically warm weather last January, private sector payrolls actually declined in February 2019. To be sure, as neither month reflects "the truth," in terms of hiring, the average of the two months will be a better gauge, and will be more in line with the underlying trend rate of job growth. Another wild card in the mix in the February data will be hiring related to the 2020 Census. Though Census is behind their targeted pace of hiring, we nonetheless expect there to be a boost to February's headline job growth number. The Census jobs booked over the next few months will all go away later in the year, so, for the time being, private sector job growth will be the more relevant indicator of the health of the labor market. While we do not expect the February data to show any effects of the coronavirus, that will clearly be something to watch for in the months ahead, with manufacturing, transportation/distribution, and leisure and hospitality services the industry groups in which any such effects would show up first.
February Manufacturing Employment Friday, 3/6 Range: -6,000 to 22,000 jobs Median: -2,000 jobs	Jan = -12,000 jobs	<u>Down</u> by 3,000 jobs.
February Average Weekly Hours Friday, 3/6 Range: 34.3 to 34.4 hours Median: 34.3 hours	Jan = 34.3 hours	<u>Unchanged</u> at 34.3 hours. The average weekly hours metric has clearly been impacted by the mix of hiring over the past several months. Education and health services and leisure and hospitality services have consistently been among the industry groups boasting the strongest hiring, and average weekly hours in these industry groups are well below the overall average. One meaningful implication is that the shorter workweek has acted as a drag on growth in aggregate private sector wage and salary earnings, the largest single component of total personal income.
February Average Hourly Earnings Friday, 3/6 Range: 0.2 to 0.4 percent Median: 0.3 percent	Jan = +0.2%	<u>Up</u> by 0.3 percent, for a year-on-year increase of 3.0 percent. 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 4.4 percent year-on-year.
February Unemployment Rate Friday, 3/6 Range: 3.5 to 3.7 percent Median: 3.6 percent	Jan = 3.6%	<u>Down</u> to 3.5 percent. We often note that one of our favorite indicators of the state of the labor market comes from the *Conference Board's* monthly consumer confidence survey. The spread between the share of consumers who see jobs as plentiful and the share who see jobs as hard to get has been a reliable predictor of turns in the business cycle, and changes in the spread have long been a reliable predictor of changes in the unemployment rate. The initial read on February shows the spread narrowed sharply and now stands at its lowest point since June. While this could suggest an increase in the unemployment rate in February, our forecast nonetheless anticipates the jobless rate slipped back to 3.5 percent. Recall that household employment is reported to have fallen in January, while the labor force barely budged, and our forecast anticipates more robust reads on each in the February data, with the net result a decline in the jobless rate.

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