# ECONOMIC PREVIEW

REGIONS

Week of October 30, 2017

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint** *(After the October 31-November 1 FOMC meeting):* Target Range Midpoint: 1.125 to 1.125 percent Median Target Range Midpoint: 1.125 percent | 1.125% | This week's FOMC meeting may get lost in the shuffle amidst a notably crowded docket of data releases. After all, with no action on the Fed funds rate, no post-meeting press conference, and no updated dot plot, it may seem like there's not a lot for the FOMC to do. We suspect, however, the meeting will be far more interesting than it may seem ahead of time, but we won't really know that until the minutes of the meeting are released on November 22. After all, there is still considerable debate within the Committee as to the causes and consequences of mysteriously low inflation and how that should factor in to decisions on the Fed funds rate, and that debate will likely dominate this week's meeting. That said, we expect the post-meeting statement to leave no doubt that the door to a December funds rate hike, which we have had in our baseline forecast all along, remains wide open. |
| **September Personal Income** Monday, 10/30 Range: 0.1 to 0.4 percent Median: 0.4 percent | Aug = +0.2% | Up by 0.3 percent though our forecast comes with a higher degree of uncertainty than usual for the personal income data. Despite the September employment report showing a decline in nonfarm employment, the proxy for wage and salary earnings as reported in the personal income data was surprisingly solid, which reflected the industry mix in the payroll employment data being highly skewed towards higher hour, higher earning sectors. We suspect this will not fully map into the September personal income data and our forecast reflects only a modest gain in wage and salary earnings. If we're wrong on this point, then our forecast for income growth will be too low. Our forecast would leave total personal income up 2.9 percent year-on-year. |
| **September Personal Spending** Monday, 10/30 Range: 0.4 to 1.1 percent Median: 0.9 percent | Aug = +0.1% | Up by 1.1 percent. September's spike in motor vehicle sales, fueled by post-hurricane replacement buying in Texas, will support a sizeable increase in spending on consumer durable goods while gasoline, helped out by friendly seasonal adjustment, will do the same for spending on nondurable consumer goods. We look for spending on services, which accounts for roughly two-thirds of all consumer spending, to post a middling increase as utilities outlays should again be a drag and growth in health care spending remains slow. The hefty increase in total spending we expect is by no means sustainable and follows a weak August number, but nonetheless will set up a firmer trajectory of consumer spending for Q4 than was the case in Q3.<br><br>We look for the PCE deflator to be up by 0.5 percent and the core PCE deflator to be up by 0.1 percent, yielding year-on-year increases of 1.7 percent and 1.3 percent, respectively. While the headline deflator will be (at least should be) dismissed as it mostly reflects higher retail gasoline prices, the tepid increase in the core PCE deflator will no doubt contribute to the debate within the FOMC over the outlook for inflation. |
| **Q3 Employment cost Index** Tuesday, 10/31 Range: 0.2 to 0.8 percent Median: 0.6 percent | Q2 = +0.5% | Up by 0.6 percent, with the wage component up by 0.6 percent and the benefits component up by 0.5 percent. We think the ECI to be the best measure of growth in labor compensation costs, in part because the ECI is not biased by the mix of jobs across industry groups. As such, the Q3 ECI should be free of the quirks in the September employment data. Our forecast would leave the total ECI up 2.4 percent year-on-year, with wages up 2.4 percent and benefit costs up 2.3 percent. |
| **October Consumer Confidence** Tuesday, 10/31 Range: 120.0 to 123.6 Median: 121.0 | Sep = 119.8 | Up to 121.8 |
| **October ISM Manufacturing Index** Wednesday, 11/1 Range: 57.9 to 61.0 percent Median: 59.4 percent | Sep = 60.8% | Down to 58.7 percent. The components for prices paid, order backlogs, and supplier delivery times were all skewed by the hurricanes, but only the latter enters into the calculation of the headline index number. We look for delivery times to fall back in the October data, and our forecast for this component knocks 1.5 points off our forecast of the headline index. This is simply noise, however, and we look for still-strong reads on new orders, current production, and employment to keep the index at a lofty level consistent with solid expansion in the manufacturing sector. |
| **September Construction Spending** Wednesday, 11/1 Range: 0.5 to 0.8 percent Median: 0.0 percent | Aug = +0.5% | Up by 0.2 percent |
| **Q3 Nonfarm Labor Productivity** Thursday, 11/2 Range: 1.5 to 3.4 percent Median: 2.4 percent SAAR | Q2 = +1.5% SAAR | Up at an annualized rate of 3.4 percent. Real nonfarm business output grew at an annualized rate of 3.8 percent while aggregate hours worked rose only modestly in Q3. This should yield what would be the fastest productivity growth since Q3 2014, though the obtuse, convoluted, and confounding manner in which hours worked are measured in the productivity data lessens our confidence in our forecast. Still, even if our forecast is on the mark, it would leave the trend rate of productivity growth at just 0.7 percent which, by any measure, is a long way from a productivity miracle. |

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| **Q3 Unit Labor Costs** Thursday, 11/2<br>Range: -0.6 to 2.0 percent<br>Median: 0.4 percent SAAR | Q2 = +0.2% SAAR | <u>Down</u> at an annualized rate of 0.6 percent, which is simply the flip side of our forecast for rapid productivity growth. Beneath the quarter-to-quarter volatility, trend growth in unit labor costs remains on the mild, not the wild, side. |
| **October ISM Non-Manufacturing Index** Friday, 11/3<br>Range: 56.0 to 60.4 percent<br>Median: 58.5 percent | Sep = 59.8% | <u>Down</u> to 58.4 percent. As with the ISM's Manufacturing Index, the September read on the component for supplier delivery times in the Non-Manufacturing Index was distorted by the hurricanes and our October forecast incorporates a correction. Again, though, this is simply noise and our October forecast is consistent with continued steady expansion in the broader economy. |
| **September Trade Balance** Friday, 11/3<br>Range: -$44.0 to -$41.6 billion<br>Median: -$43.2 billion | Aug = -$42.4 billion | <u>Widening</u> to -$43.4 billion on a slightly larger deficit in the goods account. |
| **September Factory Orders** Friday, 11/3<br>Range: 0.6 to 2.1 percent<br>Median: 1.3 percent | Aug = +1.2% | <u>Up</u> by 1.2 percent thanks to a jump in durable goods orders. While that is somewhat overstated by increased orders for civilian aircraft, the single most important number in the entire report, core capital goods orders, will be up by better than 1.0 percent for a third consecutive month. We've been saying for some time that the single most encouraging element of the economic data is the improvement in business investment spending, and the September report on factory orders will affirm our view. |
| **October Nonfarm Employment** Friday, 11/3<br>Range: 183,000 to 420,000 jobs<br>Median: 318,000 jobs | Sep = -33,000 | <u>Up</u> by 314,000 jobs with private payrolls <u>up</u> by 303,000 jobs and government payrolls <u>up</u> by 11,000 jobs. As with those of other analysts, our forecast is predicated on there being payback for the first decline in employment since September 2010. The decline reported in the initial estimate for September reflected the impacts of the hurricanes, with job losses highly concentrated in lower wage, lower hour service industries. That is where the bulk of the payback in the October data will come from. What we do not know, however, is the extent to which the original estimates for September will be revised though, at an above-average 79.8 percent, the response rate to the September establishment survey suggests the revisions to the initial estimate of nonfarm payrolls should not be overly large. Either way, the September and October job counts will balance out, and the November report should be a fairly clean report showing that, despite considerable noise in the data of late, the underlying trend rate of job growth hasn't really changed. |
| **October Manufacturing Employment** Friday, 11/3<br>Range: 10,000 to 34,000 jobs<br>Median: 18,000 jobs | Sep = -1,000 | <u>Up</u> by 18,000 jobs. |
| **October Average Weekly Hours** Friday, 11/3<br>Range: 34.4 to 34.5 hours<br>Median: 34.4 hours | Sep = 34.4 hours | <u>Unchanged</u> to 34.4 hours. |
| **October Average Hourly Earnings** Friday, 11/3<br>Range: -0.1 to 0.3 percent<br>Median: 0.2 percent | Sep = +0.5% | <u>Down</u> by 0.1 percent, which yields a year-on-year increase of 2.4 percent. The jump reported in the September data reflected the mix of industry groups impacted by the hurricanes and thus had little to do with underlying wage pressures. Those effects will be reversed in the October data, particularly to the extent job growth is highly weighted in lower wage services jobs as we expect will be the case. Reported wage growth will also be suppressed by calendar effects (the October survey week fell early in the month), hence our forecast for a modest decline in hourly earnings for October. Sorting through the noise in the data shows continued gentle acceleration in wage growth consistent with the labor market approaching but not yet at full employment. Our calls on job gains, hours worked, and hourly earnings would leave aggregate private sector wage and salary earnings up 0.2 percent in October (up 4.0 percent year-on-year). |
| **October Unemployment Rate** Friday, 11/3<br>Range: 4.2 to 4.4 percent<br>Median: 4.2 percent | Sep = 4.2% | <u>Up</u> to 4.3 percent. |

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