ECONOMIC PREVIEW

REGIONS

Week of April 30, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the May 1-2 FOMC meeting):* Target Range Midpoint: 1.625 to 1.625 percent Median Target Range Midpoint: 1.625 percent	Range: 1.50% to 1.75% Midpoint: 1.625%	This week's FOMC meeting figures to be quiet and uneventful. With no post-meeting press conference and no updates of the FOMC's economic projections, the only public takeaway from the meeting will be the post-meeting policy statement. We don't look for material changes to the assessment of current economic conditions, save perhaps for a nod to a transitory slowdown in growth in Q1. Even if Monday's personal income and spending data show both headline and core PCE inflation at 2.0 percent (see below), the post-meeting statement will likely emphasize that longer-term inflation expectations remain low as transitory factors are boosting inflation readings in the near term.
March Personal Income Monday, 4/30 Range: 0.0 to 0.5 percent Median: 0.4 percent	Feb = +0.4%	Up by 0.2 percent. Slightly slower growth in wage and salary earnings than seen over the past few months will weigh on growth in total personal income, though we look for labor earnings to be firmer in the April data. Growth in interest income was muted in Q1, thus holding down growth in overall investment income, but, again, the April data should show firmer growth. Rental income looks to have logged an oddly large decline in March, acting as a drag on growth in total income. Our forecast would leave total personal income up 3.7 percent year-on-year, but the bigger story is the firmer growth in disposable (i.e., after tax) personal income stemming from the 2017 tax bill.
March Personal Spending Monday, 4/30 Range: 0.3 to 0.5 percent Median: 0.4 percent	Feb = +0.2%	Up by 0.3 percent. Our forecast anticipates a modest gain in spending on goods, with help from motor vehicles and home furnishings. Gasoline, however, will be a modest drag. Higher utilities outlays than typical for the month of March will boost spending on services. On the whole, growth in real consumer spending was weak in Q1 but this largely reflects payback from robust growth in Q4 2017. Current quarter growth will be much stronger than Q1 growth. We look for the PCE Deflator to be unchanged, leaving it up 2.0 percent year-on-year. Where things could get interesting, however, is the core PCE deflator, which we expect to be up by 0.1 percent. How it gets there, i.e., whether it rounds up from below or rounds down from above, will determine whether core PCE inflation hits 2.0 percent for the first time since April 2012. We think it will fall just short, with a year-on-year increase of 1.9 percent, but even if we're correct, 2.0 percent is only a matter of time, perhaps as soon as the April data.
April ISM Manufacturing Index Tuesday, 5/1 Range: 57.0 to 59.5 percent Median: 58.5 percent	Mar = 59.3%	Down to 58.9 percent. We look for some settling back in the components for new orders, current production, supplier delivery times, and employment. That said, our forecasts for each of these components, as well as for the headline index, would still be consistent with solid expansion in the manufacturing sector. One sign that this expansion has staying power is that growth remains broad based across industry groups rather than the entire sector being carried by only a few industry groups. The ISM data give us insight into this, and diminished breadth would be an early indicator of an impending turn in the manufacturing cycle.
March Construction Spending Tuesday, 5/1 Range: -0.4 to 1.0 percent Median: 0.5 percent	Feb = +0.1%	Up by 0.5 percent.
Q1 Nonfarm Labor Productivity Thursday, 5/3 Range: 0.4 to 1.3 percent Median: 0.9 percent SAAR	Q4 = 0.0%	Up at an annualized rate of 0.9 percent. The GDP data show real output in the nonfarm business sector rose at an annualized rate of 2.8 percent in Q1. Growth in aggregate hours worked was slower in Q1 than in Q4 2017, but the mapping into hours worked as reported in the productivity data isn't always clear. Our estimate of hours worked would put productivity growth at 0.9 percent, but of far greater significance is that the underlying trend rate of productivity growth is firming.
Q1 Unit Labor Costs Thursday, 5/3 Range: 2.3 to 3.2 percent Median: 3.0 percent SAAR	Q4 = +2.5% SAAR	Up at an annualized rate of 3.0 percent. Growth in hourly compensation costs picked up in Q1, pushing unit labor costs up at a faster rate. The trend rate of growth in unit labor costs, however, remains fairly modest.
March Trade Balance Thursday, 5/3 Range: -$57.5 to -$49.1 billion Median: -$55.6 billion	Feb = -$57.6 billion	Narrowing to -$49.1 billion. A sizeable increase in exports and a sharp decline in imports led to a significantly narrower deficit in the goods account in March. At the same time, the narrowing seen in the services account in February, which simply reflected broadcast/licensing fees associated with the Olympics, will reverse. We question the trade data in the initial report on Q1 GDP, but if our forecast for March is on or near the mark trade would be on a path to contribute to Q2 growth.

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April ISM Non-Manufacturing Index Range: 57.0 to 59.3 percent Median: 58.0 percent	Thursday, 5/3	Mar = 58.8%	Down to 58.4 percent.
March Factory Orders Range: 0.6 to 1.7 percent Median: 1.3 percent	Thursday, 5/3	Feb = +1.2%	Up by 1.7 percent. Durable goods orders were up big, but that reflects a spike in orders for civilian aircraft covering up disappointing detail on orders for core capital goods. Growth in spending on equipment and machinery slowed in Q1, but that came on the heels after two consecutive quarters of double-digit growth. The soft March print on core capital goods orders means Q2 will start out on a less firm foundation than we had anticipated, thus posing a challenge to expectations of stronger growth in capital spending, though it is far too soon to write off Q2. One thing we simply do not know is whether, or to what extent, firms are either holding back on spending or altering the timing of spending due to uncertainty around trade stemming from tariffs and up in the air trade agreements, which is at least a possibility.
April Nonfarm Employment Range: 145,000 to 229,000 jobs Median: 185,000 jobs	Friday, 5/4	Mar = +103,000	Up by 202,000 jobs with private payrolls up by 196,000 jobs and government payrolls up by 6,000 jobs. Neither the February number (too large) nor the March number (too small) was reflective of the underlying rate of job growth, and while the truth may or may not lie between the two, the April job growth number at least should. While there were atypical bouts of snow across parts of the U.S. in April, this was more along the lines of being a nuisance as opposed to being significant enough to disrupt to work patterns, except of course for those employed in some capacity by Major League Baseball. After having slowed sharply in March, we look for job growth in the goods producing industries, particularly construction, to have picked up in April, thereby supporting overall job growth.
April Manufacturing Employment Range: 15,000 to 30,000 jobs Median: 19,000 jobs	Friday, 5/4	Mar = +22,000	Up by 21,000 jobs.
April Average Weekly Hours Range: 34.4 to 34.6 hours Median: 34.5 hours	Friday, 5/4	Mar = 34.5 hours	Up to 34.6 hours. If, as we expect, the mix of jobs is more tilted toward the goods producing industries, that could easily push average hours up by one-tenth of an hour – we weren't that far away from 34.6 in March. If we are correct on this, it will have a powerful effect on growth in aggregate wage and salary earnings (see below).
April Average Hourly Earnings Range: 0.2 to 0.3 percent Median: 0.2 percent	Friday, 5/4	Mar = +0.3%	Up by 0.2 percent (up 2.7 percent year-on-year). An early survey week will likely bias measured growth in hourly earnings lower, but year-on-year growth will remain in line with that of recent months. Our calls on employment, hours worked, and hourly earnings will yield a 0.6 percent increase (up 5.2 percent year-on-year) in aggregate wage and salary earnings, which is of far more relevance than growth in hourly earnings both as a gauge of growth in labor costs and as a driver of growth in consumer spending.
April Unemployment Rate Range: 4.0 to 4.1 percent Median: 4.0 percent	Friday, 5/4	Mar = 4.1%	Unchanged at 4.1 percent.

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