ECONOMIC PREVIEW

REGIONS

Week of September 3, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 25-26 FOMC meeting):* Target Range Midpoint: 2.125 to 2.125 percent Median Target Range Midpoint: 2.125 percent	Range: 1.75% to 2.00% Midpoint: 1.875%	Beware the August effect. Okay, fine, so it doesn't have quite the same cachet as "beware the Ides of March" but, then, Shakespeare wasn't turning out forecasts of monthly job growth, was he? In any event, the "August effect" refers to what is typically a large upward revision to the initial estimate of job growth in the month of August in any given year. Since 2000, the initial estimate of August job growth has been revised up by an average of 55,000 jobs (first to third estimates), far and away the largest revision of any month. The main culprit behind the August effect seems to be what is typically a low initial response rate to the BLS's August establishment survey, which has biased estimates of August job growth lower. Our forecast of August job growth (see Page 2) anticipates the August effect holding this year, which means there is upside risk to our forecast if this just happens to be the year we get a clean initial estimate for August. What we think will be a noisy August employment follows what we know was a noisy July report (job growth was significantly understated), which may cause some to worry that the labor market is running out of steam. We would disagree, emphatically, with any such assessment, and will look to the employment reports over coming months to affirm our view.
August ISM Manufacturing Index Tuesday, 9/4 Range: 56.0 to 59.0 percent Median: 57.6 percent	Jul = 58.1%	Down to 57.9 percent, a second consecutive decline which nonetheless would leave the index at a level consistent with solid growth in the manufacturing sector. We think the headline index is still suffering the effects of the spike seen in June that largely reflected the movement of a single component – the index of supplier delivery times. Delivery times are still slow, but less so than reflected in the June data. Our forecast anticipates a further decline in the index of supplier delivery times in the August data, which will weigh on the headline index. Of far more significance will be the reads on new orders, current production, and order backlogs, each of which we expect will point to continued growth in manufacturing in the months ahead.
July Construction Spending Tuesday, 9/4 Range: -0.2 to 1.5 percent Median: 0.4 percent	Jun = -1.1%	Up by 0.5 percent.
July Trade Balance Wednesday, 9/5 Range: -\$51.2 to -\$45.4 billion Median: -\$49.9 billion	Jun = -\$46.3 billion	Widening to -\$50.6 billion. As we've noted before, the trade data have been distorted over recent months as firms, domestic and foreign, have tried to work around tariffs, either those already imposed or those possibly on the way. While initially those effects acted to narrow the trade deficit, we are now seeing those effects work in the opposite direction, leading to a wider trade gap. For instance, U.S. retailers typically build stocks well ahead of the holiday season, but they're doing so even earlier this year which, as the advance data for July show, is contributing to faster growth in imports. Along with a wider deficit in the goods account, we look for a smaller surplus in the services account, primarily due to remaining payments for World Cup broadcasting rights being booked in July. Just as trade was a material support for Q2 real GDP growth, it will be a sizeable drag on Q3 real GDP growth.
August ISM Non-Manufacturing Index Thursday, 9/6 Range: 56.0 to 58.5 percent Median: 56.5 percent	Jul = 55.7%	Up to 57.4 percent. The headline index plummeted in July thanks mainly to what was the largest monthly decline in the "business activity" sub-index since November 2008. That struck us as notably out of line with most of the recent economic data, and our forecast anticipates a bounce back in this component in the August data, which will push the headline index higher.
July Factory Orders Thursday, 9/6 Range: -1.2 to -0.4 percent Median: -0.6 percent	Jun = +0.7%	Down by 0.6 percent. In the "meaningless noise" category, the headline number will be grounded by a sharp decline in the dollar volume of civilian aircraft orders. In the "what actually matters" category, the advance data show both orders for and shipments of core capital goods rose smartly in July, getting Q3 growth in business fixed investment off to a solid start. In the "there's just no pleasing some people" category, we are in the midst of what has been a prolonged run of robust growth in business investment in equipment and machinery. True, annualized growth slowed to 4.4 percent in Q2, but growth over the previous five quarters averaged 9.4 percent. Yet, all we hear from some quarters is how the 2017 tax bill has failed to deliver the promised "boom" in business investment. Either they just haven't bothered to, you know, actually look at the data, or there is indeed just no pleasing some people. Clearly this run started before there even was a tax bill – we referred to this as the most under-reported story of 2017 – but we think the 2017 tax bill will keep this run going longer than would have otherwise been the case. This is vital if there is to be meaningful and sustained improvement in productivity growth.

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Q2 Nonfarm Productivity – 2nd est. Range: 2.8 to 3.1 percent Median: 3.0 percent SAAR	Thursday, 9/6	Q2 1st est = +2.9% SAAR	Up at an annualized rate of 3.1 percent. Revisions to the Q2 GDP data show real output in the nonfarm business sector grew at an annualized rate of 5.0 percent, up from the initial estimate of 4.8 percent. This should, barring an upward revision to hours worked as measured in the productivity data, lead to an upward revision to the initial estimate of Q3 productivity growth. Our forecast would leave the trend rate of productivity growth at 1.2 percent, better than it had been but still not good enough.
Q2 Unit Labor Costs – 2nd est. Range: -1.1 to -0.7 percent Median: -0.9 percent SAAR	Thursday, 9/6	Q2 1st est = -0.9% SAAR	Down at an annualized rate of 1.1 percent. The flip side of an upward revision to productivity growth would be a downward revision to unit labor costs, but our forecast would leave trend growth in unit labor costs at 2.0 percent.
August Nonfarm Employment Range: 160,000 to 225,000 jobs Median: 190,000 jobs	Friday, 9/7	Jul = +157,000	Up by 173,000 jobs, with private sector payrolls up by 161,000 jobs and public sector payrolls up by 12,000 jobs. As we noted above, our forecast anticipates the August effect holding this year, but we won't be surprised to see an upward revision to the initial estimate of July job growth. Either way, the key point to keep in mind is that even if the July and August data are distorted by a higher than normal volume of noise, the trend rate of job growth remains solid, with average monthly job growth continuing to hover right at 200,000 jobs over the past 12 months and job growth remaining notably broad based. That is impressive for an expansion in its tenth year.
August Manufacturing Employment Range: 10,000 to 30,000 jobs Median: 23,000 jobs	Friday, 9/7	Jul = +37,000	Up by 24,000 jobs.
August Average Weekly Hours Range: 34.5 to 34.5 hours Median: 34.5 hours	Friday, 9/7	Jul = 34.5 hours	Unchanged at 34.5 hours.
August Average Hourly Earnings Range: 0.2 to 0.3 percent Median: 0.2 percent	Friday, 9/7	Jul = +0.3%	Up by 0.2 percent, for a year-on-year increase of 2.7 percent, but we'll note that earnings growth beat to the upside in July and we would not be at all surprised to see a modest downward revision, which would throw our August forecast off base. As the data now stand, however, our calls on employment, hours worked, and hourly earnings would yield a 0.3 percent increase in aggregate private sector earnings in August, good for a year-on-year increase of 5.0 percent.
August Unemployment Rate Range: 3.8 to 3.9 percent Median: 3.8 percent	Friday, 9/7	Jul = 3.9%	Down to 3.8 percent. The spread between "jobs are plentiful" and "jobs are hard to find" in the *Conference Board's* August survey of consumer confidence rose to 30.0 percentage points, the highest since March 2001. Okay, forget that March 2001 was later pegged as the start of the 2001 recession, and instead focus on the fact that this spread has over time been a reliable indicator of movements in the unemployment rate (no, really – the spread was compressing, and rapidly so, in early-2001 while at present it is widening). We think this wider spread is consistent with a decline in the unemployment rate in August.

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