ECONOMIC PREVIEW

REGIONS

Week of January 28, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 29-30 FOMC meeting):* Target Range Midpoint: 2.375 to 2.375 percent Median Target Range Midpoint: 2.375 percent	Range: 2.25% to 2.50% Midpoint: 2.375%	This has to go better than it did in December, right? "This" being Chairman Powell's press conference following this week's FOMC meeting. With no Fed funds rate hike on tap and little new in the economic outlook, the watchwords in Mr. Powell's press conference will be "patient" and "flexible," as in patient on further funds rate hikes and flexible in managing the Fed's balance sheet lower. As in December, the markets will let us know how effective Mr. Powell is in delivering his message.
Dec. Advance Trade Balance: Goods Tuesday, 1/29 Range: N/A to N/A Median: N/A	Nov = ?	N/A In the absence of the November data, which were delayed by the partial government shutdown, we have no basis on which to build a forecast for the December data. This release will be delayed by the partial government shutdown.
January Consumer Confidence Tuesday, 1/29 Range: 120.0 to 129.0 Median: 124.5	Dec = 128.1	Down to 123.6 – a blowout employment report and rebounding stock prices should have mitigated any further decline in confidence in January, the operative word here being "should," as confidence can be a most fleeting thing. In measures of business and consumer sentiment, it is the forward looking (or, expectations) component that we watch most closely, as that is a bigger driver of spending decisions than assessments of current conditions. Our forecast anticipates a much smaller decline in the expectations component in January than was the case in December, when the expectations component flat-out took a beating, but if we're wrong on this point our forecast for the headline index will be too high.
Q4 Real GDP Wednesday, 1/30 Range: 1.9 to 3.2 percent Median: 2.8 percent SAAR	Q3 = +3.4% SAAR	Up at an annualized rate of 2.8 percent. At the time the partial government shutdown went into effect, we had Q4 real GDP growth tracking just under 3.0 percent (annualized rate). Lacking additional data on many key components, we're just going to stick with the last meaningful tracking estimate we had, but we'll note that the lack of much of the source data means there is a higher than normal degree of uncertainty associated with our forecast. If our forecast is close to the mark, it would put full-year 2018 real GDP growth at 2.9 percent, the fastest growth of any year in the current expansion. This release will be delayed by the partial government shutdown.
Q4 GDP Price Index Wednesday, 1/30 Range: 1.0 to 2.4 percent Median: 1.8 percent SAAR	Q3 = +1.8% SAAR	Up at an annualized rate of 1.9 percent. This release will be delayed by the partial government shutdown.
Q4 Employment Cost Index Thursday, 1/31 Range: 0.7 to 0.8 percent Median: 0.8 percent	Q3 = +0.8%	Up by 0.8 percent, with the wages component up by 0.8 percent and the benefits component up by 0.7 percent. Our forecast would leave the total index up 3.1 percent year-on-year, with wage costs up 3.2 percent and benefit costs up 2.8 percent. The Employment Cost Index is our, and much more importantly, the FOMC's preferred gauge of labor costs, and it is showing the same gradual acceleration in wage growth seen on other measures. By any measure, however, wage growth remains slower than one would expect with a sub-4.0 percent unemployment rate.
December Personal Income Thursday, 1/31 Range: 0.3 to 0.6 percent Median: 0.4 percent	Nov = +0.2%	Up by 0.5 percent. The combination of an outsized increase in employment, a longer workweek, and a hefty increase in average hourly earnings should set up a sizeable increase in private sector wage and salary earnings, far and away the largest single component of personal income. Rental income and small business profits should also support top-line income growth. Further subsidy payments to farmers shut out of foreign markets due to ongoing trade disputes should again be a support for top-line income growth. Our forecast would leave total personal income up 4.3 percent year-on-year. This release will be delayed by the partial government shutdown.
December Personal Spending Thursday, 1/31 Range: 0.2 to 0.5 percent Median: 0.3 percent	Nov = +0.6%	Up by 0.2 percent. Sharply lower retail gasoline prices will be a drag on top-line spending, while atypically mild winter weather was a material drag on utilities outlays, which will have held down growth in consumer spending on services. We do look for a solid gain in spending on consumer durable goods, and our forecast would put annualized growth in nominal consumer spending at 5.5 percent in Q4. This release will be delayed by the partial government shutdown.
December PCE Deflator Thursday, 1/31 Range: -0.1 to 0.1 percent Median: 0.0 percent	Nov = +0.1%	Unchanged, which yields a year-on-year increase of 1.7 percent. We look for the core PCE deflator to be up by 0.2 percent, leaving it up 1.9 percent year-on-year. At present, inflation is doing nothing to try the FOMC's newly-found patience. This release will be delayed by the partial government shutdown.
December Construction Spending Friday, 2/1 Range: N/A to N/A Median: N/A	Nov = ?	N/A In the absence of the November data, which were delayed by the partial government shutdown, we have no basis on which to build a forecast for the December data. This release will be delayed by the partial government shutdown.

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January ISM Manufacturing Index Range: 53.5 to 55.0 percent Median: 54.1 percent	Friday, 2/1	Dec = 54.1%	Up to 54.8 percent. The extent of the decline in the headline index in December was surprising, but the extent of the decline in the new orders component was disturbing. At least to us, as we routinely cite the ISM's gauge of new factory orders as one of our favorite forward-looking indicators. We noted at the time that we thought the sharp decline in new orders in December was payback for the strength of new orders over the prior several months, which to a large extent reflected firms, domestic and foreign, trying to get ahead of more/more punitive tariffs. Another troubling detail, though one that went largely unnoticed, in the December data was that backlogs of unfilled orders were no longer growing, which suggests that in the absence of a rebound in new orders, production and hiring in the factory sector could soften over coming months. All of which means the January ISM Manufacturing Index takes on added importance. Our forecast anticipates modestly higher reads on new orders and current production than seen in the December data, but further declines in these components would cause us to reassess our outlook for manufacturing.
January Nonfarm Employment Range: -40,000 to 223,000 jobs Median: 165,000 jobs	Friday, 2/1	Dec = +312,000	Up by 179,000 jobs, with private sector payrolls up by 182,000 jobs and public sector payrolls down by 3,000 jobs, but this forecast comes with a low degree of confidence. First, the January data incorporate the BLS's annual benchmark revisions to prior estimates of nonfarm employment (in short, each year the BLS benchmarks its sample to the universe of Unemployment Insurance tax returns). This year's revision will be small in magnitude but could bring some notable shifts in the composition of job growth – for instance, look for downward revisions to estimates of job growth in retail trade and upward revisions to job growth in transportation/warehousing. Of more significance, the ongoing partial government shutdown could wreak havoc on the January employment data, as the shutdown carried through the monthly survey period. With Congress having passed legislation providing for furloughed government workers to be paid once the shutdown ends, there should be minimal effects on public sector employment, but private sector contractors displaced by the shutdown will not be counted as employed if they received no pay during the survey period, and we have no way to quantify this effect in advance. If nothing else, the January employment report will be another illustration of a point we frequently make – focus on the trends in the data, not the headline number on any given data release. The trends show job growth remains robust and broad based, which we think remains the case no matter how noisy the January employment report turns out to be.
January Manufacturing Employment Range: 10,000 to 30,000 jobs Median: 17,000 jobs	Friday, 2/1	Dec = +32,000	Up by 19,000 jobs.
January Average Weekly Hours Range: 34.4 to 34.5 hours Median: 34.5 hours	Friday, 2/1	Dec = 34.5 hours	Unchanged at 34.5 hours.
January Average Hourly Earnings Range: 0.2 to 0.3 percent Median: 0.3 percent	Friday, 2/1	Dec = +0.4%	Up by 0.2 percent, for a year-on-year increase of 3.1 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.5 percent increase in aggregate private sector wage and salary earnings, leaving them up 5.5 percent year-on-year.
January Unemployment Rate Range: 3.8 to 4.1 percent Median: 3.9 percent	Friday, 2/1	Dec = 3.9%	Up to 4.0 percent. Government employees not working and not paid during the shutdown will be counted as unemployed, which has the potential to push the jobless rate higher, though measurement issues may mitigate this effect. Either way, a higher jobless rate in January will likely prove to be nothing more than noise in the data.

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