ECONOMIC PREVIEW

REGIONS

Week of June 3, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 18-19 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 week's data from the ISM could be both sobering and reassuring. The ISM's survey of the manufacturing sector could be somewhat sobering if, as we expect, the details beneath the headline index number show deteriorating conditions. We'll pay close attention to the index of new manufacturing orders, which we often point to as one of our favorite forward looking indicators. On the other hand, the ISM's survey of the non-manufacturing sector should be a reassuring reminder that the broader is holding up fairly well. The May employment report should send the same message.
May ISM Manufacturing Index Monday, 6/3 Range: 51.0 to 54.0 percent Median: 53.0 percent	Apr = 52.8%	Down to 51.8 percent. While our forecast would keep the headline index above the 50.0 percent break between expansion and contraction, we look for there to be clear deterioration in the underlying details. For instance, our forecast anticipates the new orders index will dip below 50.0 percent for the first time since December 2015, and while we expect the indexes for employment and current production to remain above 50.0 percent, we look for both to be lower than they were in the April survey. Our forecast also anticipates supplier delivery times to have shortened, which is a natural extension of our basic premise of slowing activity in the manufacturing sector. Another detail to watch for is the index of new export orders – for the first time since February 2016, new export orders declined in April, i.e., before the global trade environment worsened in May. To be sure, our low-end forecast could prove to be too low, particularly given the reads from some of the regional Fed surveys, but other indicators point to a marked weakening in conditions in the manufacturing sector. So, even if not in the May data, over coming months the ISM survey will more fully reflect the three major headwinds – an inventory overhang, global trade tensions, and a slowing pace of motor vehicle sales – holding back the manufacturing sector.
April Construction Spending Monday, 6/3 Range: -0.4 to 0.7 percent Median: 0.5 percent	Mar = -0.9%	Up by 0.5 percent.
April Factory Orders Tuesday, 6/4 Range: -1.3 to -0.7 percent Median: -0.9 percent	Mar = +1.9%	Down by 0.7 percent. The preliminary data show a sizable, and broad based, decline in durable goods orders. Given that crude oil prices were still rising rapidly in April, that will support orders for nondurable goods and thus mitigate the decline in total orders. If we are correct in our basic premise that conditions in the manufacturing sector have deteriorated materially, then April's decline in core capital goods orders will be sustained over coming months.
May ISM Non-Manufacturing Index Wednesday, 6/5 Range: 53.0 to 56.5 percent Median: 55.5 percent	Apr = 55.5%	Down to 55.0 percent.
April Trade Balance Thursday, 6/6 Range: -\$52.5 to -\$49.8 billion Median: -\$50.7 billion	Mar = -\$50.0 billion	Widening to -\$50.2 billion. Though the advance data show the deficit in the goods account was little changed, that masks what were notably large declines in both imports and exports. While exports of civilian aircraft fell sharply in April, the weakness in exports was broad based, with exports of motor vehicles, industrial supplies, and consumer goods falling. At the same time, imports of both capital and consumer goods fell in April, though to a lesser degree than did exports. To us, these declines are a clear sign that bloated inventories and global trade tensions are weighing on economic activity, and we expect this to remain the case over coming months. As a side note, the April release will incorporate benchmark revisions to the recent historical data, which injects some degree of uncertainty into our forecast.
Q1 Nonfarm Labor Productivity – 2nd est Thursday, 6/6 Range: 3.3 to 3.6 percent Median: 3.5 percent SAAR	Q1 – 1st est = +3.6% SAAR	Up at an annualized rate of 3.4 percent. The revised GDP data show growth in real nonfarm business output to be slightly slower than was first estimated, while there should be a minor upward revision to aggregate hours worked. The net result will be a modest downward revision to the first estimate of Q1 productivity that still leaves us with a strong, not to mention well above trend, growth print. While current quarter productivity growth is shaping up to be fairly weak, of more relevance is that the trend rate of productivity growth has improved markedly over recent quarters, and we think there is more room to the upside over coming quarters.
Q1 Unit Labor Costs – 2nd est Thursday, 6/6 Range: -1.4 to -0.6 percent Median: -0.8 percent SAAR	Q1 – 1st est = -0.9% SAAR	Down at an annualized rate of 1.3 percent. The revised Q1 GDP data show a sharp downward revision wage and salary earnings, which points to a more pronounced decline in unit labor costs than first estimated despite slightly slower productivity growth. The broader point is that an improving trend rate of productivity growth is acting as a buffer between faster growth in labor costs and corporate profit margins.

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Indicator/Action Economics Survey:		Last Actual:	Regions' View:
May Nonfarm Employment Range: 150,000 to 210,000 jobs Median: 189,000 jobs	Friday, 6/7	Apr = +263,000 jobs	Up by 198,000 jobs, with private sector payrolls up by 176,000 jobs and public sector payrolls up by 22,000 jobs. Right off the bat, we'll note that our forecast anticipates some early hiring for the 2020 Census will turn up in the May data, thus boosting growth in public sector payrolls. If we're wrong here then our forecast for total job growth will be too high. Of more significance is that we see private sector job growth softening a bit, though this mostly reflects some scaling back in manufacturing, which will weigh on job growth amongst the goods producing industries. On the whole, the labor market remains quite healthy, and trends in initial claims for unemployment insurance point to another solid increase in nonfarm payrolls. The keys over coming months will be the extent to which the effects of elevated inventories and diminished global trade move beyond the manufacturing sector and weigh on hiring in transportation, distribution, and warehousing, and the extent to which uncertainty over trade policy weighs on business sentiment and causes firms to pull back on hiring and capital spending.
May Manufacturing Employment Range: -4,000 to 10,000 jobs Median: 5,000 jobs	Friday, 6/7	Apr = +4,000 jobs	Down by 4,000 jobs.
May Average Weekly Hours Range: 34.4 to 34.5 hours Median: 34.5 hours	Friday, 6/7	Apr = 34.4 hours	Unchanged at 34.4 hours.
May Average Hourly Earnings Range: 0.2 to 0.3 percent Median: 0.3 percent	Friday, 6/7	Apr = +0.2%	Up by 0.3 percent, for a year-on-year increase of 3.2 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 4.9 percent year-on-year.
May Unemployment Rate Range: 3.5 to 3.7 percent Median: 3.6 percent	Friday, 6/7	Apr = 3.6%	Unchanged at 3.6 percent. As part of their monthly survey of consumer confidence, the *Conference Board* queries consumers on their perceptions of labor market conditions. The spread between the share of those who see jobs as being plentiful and the share of those who see jobs as hard to get has been a reliable indicator of changes in the unemployment rate. That spread widened further in May, leaving it wider than at any time since December 2000, which points to a decline in the jobless rate. That said, the data from the household survey have been hard to interpret of late, particularly the reported declines in the size of the labor force in each of the past four months. We see this as more of a measurement issue than an accurate reflection of labor force participation, but either way it lessens our confidence in our forecast of May's jobless rate. Finally, the labor force data for May and June of any given year are prone to sharp swings as summer job seekers enter the labor force. Though the majority of this inflow typically occurs in June, it is sensitive to the timing of the school year, which varies from one year to the next, making it difficult for the BLS to get the seasonal adjustment correct. Our forecast of no change in the jobless rate given all of these potential swing factors is us effectively waving the white flag, though it would have been a lot less writing on our part, and a lot less reading on your part, had we just put a question mark in this box and left it at that.

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