

# ECONOMIC PREVIEW



Week of October 3, 2022

## Indicator/Action

### Economics Survey:

## Last

### Actual:

### Regions' View:

<p><b>Fed Funds Rate: Target Range Midpoint</b> (After the November 1-2 FOMC meeting): Target Range Mid-point: 3.625 to 3.875 percent Median Target Range Mid-point: 3.875 percent</p>	<p>Range: 3.00% to 3.25% Midpoint: 3.125%</p>	<p>In addition to the September employment report (see Page 2), this week brings the release of the Job Openings and Labor Turnover Survey (a/k/a JOLTS) for August, out on Tuesday, likely to again show well over ten million open jobs. The labor market data continue to test the FOMC's resolve, as they see the labor market as being "tight to an unhealthy degree." While thus far the labor market remains vibrant, it may ultimately prove to be no match for a sufficiently motivated FOMC.</p>
<p><b>September ISM Manufacturing Index</b>      Monday, 10/3 Range: 50.2 to 53.6 percent Median: 52.1 percent</p>	<p>Aug = 52.8%</p>	<p><u>Down</u> to 51.8 percent. Though our sense is that growth in orders has slowed, we've suspected that seasonal adjustment has distorted the message sent by the new orders index in the ISM surveys over recent months, making it look weaker in June and July and stronger in August than was the case. The September seasonal factor for the new orders index is basically neutral, and while this will allow for a cleaner read, our forecast anticipates the new orders index falling below 50.0 percent and thus acting as a drag on the headline index, with the production index treading water at just above 50.0 percent. Our forecast also anticipates another dip in the index of supplier delivery times, indicating further loosening of supply chain constraints. Keep in mind, however, that an improvement in supplier delivery times acts as a drag on the headline index. In addition to a slower pace of expansion over the past few months, we've noted our concerns over the breadth of the expansion having narrowed, which has been evident in the sub-indexes for new orders, production, and employment. With what is looking to be a more pronounced slowdown in the broader economy, at home and abroad, the support for the manufacturing sector is likely to thin further in the months ahead. One consequence of a slower and less broadly based expansion is that price pressures on non-labor inputs have significantly abated. This is reflected in the rapid descent of the prices paid index (which does not enter into the calculation of the headline index), to the point that we won't be at all surprised if the September data show it having fallen below the 50.0 percent threshold.</p>
<p><b>August Construction Spending</b>      Monday, 10/3 Range: -0.9 to 0.6 percent Median: -0.3 percent</p>	<p>Jul = -0.4%</p>	<p><u>Down</u> by 0.6 percent.</p>
<p><b>August Factory Orders</b>      Tuesday, 10/4 Range: -1.0 to 0.5 percent Median: 0.2 percent</p>	<p>Jul = -1.0%</p>	<p><u>Down</u> by 0.8 percent. We know from the advance data that orders for durable goods were dragged down by a decline in nondefense aircraft orders. We look for nondurable goods orders to have also declined, in large measure due to price effects. That said, the advance data showed a surprisingly large increase in core capital goods orders, a series which leads business investment spending in the GDP data, along with an upward revision to what originally was a tepid July increase. While that gave us some comfort that business investment is holding up better than we had feared, increasingly aggressive central banks and an increasingly dim growth outlook could easily knock capital spending off the rails. We'll be listening carefully in the Q3 earnings calls for any color on capital spending plans and how they may have changed over recent months.</p>
<p><b>August Trade Balance</b>      Wednesday, 10/5 Range: -\$75.0 to -\$66.3 billion Median: -\$68.0 billion</p>	<p>Jul = -\$70.7 billion</p>	<p><u>Narrowing</u> to -\$66.9 billion.</p>
<p><b>Sep. ISM Non-Manufacturing Index</b>      Wednesday, 10/5 Range: 54.0 to 57.5 percent Median: 56.0 percent</p>	<p>Aug = 56.9%</p>	<p><u>Down</u> to 54.1 percent. While the expansion in the services sector has thus far remained more broadly based than that in the manufacturing sector, it isn't clear how much longer that can remain the case. In part, our below-consensus forecast reflects challenging seasonal adjustment for the business activity and new orders indexes, which we expect to weigh on the headline index. We repeatedly stress the importance of seasonal adjustment because in times of transition any weakening (strengthening) in the raw data can easily be exaggerated in the seasonally adjusted data, and we'd rather attempt to segregate the signal than the noise than to simply craft a convenient narrative around whatever the headline number proves to be. So, we expect the ISM's survey to show the expansion in the services sector continues but is shifting into a lower gear. It is interesting to note that the ISM's surveys show price pressures on non-labor inputs have not abated to nearly the same degree in the services sector as has been the case in the manufacturing sector, so it will be interesting to see whether the September survey shows that gap narrowing at all.</p>

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<p><b>September Nonfarm Employment</b> Range: 200,000 to 389,000 jobs Median: 250,000 jobs</p>	<p>Friday, 10/7 Aug = +315,000 jobs</p>	<p><u>Up</u> by 337,000 jobs, with private sector payrolls <u>up</u> by 313,000 jobs and public sector payrolls <u>up</u> by 24,000 jobs. The first thing to look for is whether, or to what extent, the historical pattern of sizable upward revisions to the initial estimate of August job growth held for this year. Of more relevance, the data on initial and continuing claims for unemployment insurance point to a healthy increase in nonfarm payrolls in September, with sizable declines in the four-week moving average in each series between the August and September establishment survey reference weeks. While our forecast reflects further deceleration in the pace of job growth, as it would leave September's gain below the three, six, and twelve month averages, the labor market has not slowed to the same degree as have other areas of the economy. To be sure, the claims data suggest that fewer layoffs are helping sustain the monthly job growth figures (which reflect the net change in nonfarm payrolls), which is one reason to watch the August JOLTS data. Though lagging the payroll employment data by a month, the JOLTS data have shown deceleration in the number of hires over the past few months, and that was likely the case in August.</p> <p>Even so, labor supply still remains no match for labor demand, hence the FOMC's resolve to "do a job on demand." To the extent they succeed, we'd expect that to play out in the form of further slowing in the pace of hiring accompanied by substantial declines in job vacancies before seeing substantial and broad based layoffs. Indeed, one topic of considerable debate is the extent to which the labor market can truly slow without there being large-scale layoffs. While some dismiss this possibility out of hand, we're not inclined to do so. After all, given how difficult it has been for firms to find and retain labor, we think they'd be hesitant to then turn around and start shedding workers in great numbers unless they believe the economy is heading for a deep and protracted slump. The reality is that none of us know how this will play out – one reason there is so much debate on this point is that there is no historical precedent to go by, which of course doesn't stop some from rolling out historical relationships to bolster their case.</p> <p>All of this will take time to play out. As for the September employment report, in addition to the headline job growth number and any revisions to the initial August print, we'll be watching the one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups. Job growth has been notably broad based for some time now but, should this change, that would be cause for concern over not only the labor market but the broader economy.</p>
<p><b>September Manufacturing Employment</b> Range: 15,000 to 30,000 jobs Median: 20,000 jobs</p>	<p>Friday, 10/7 Aug = +22,000 jobs</p>	<p><u>Up</u> by 19,000 jobs.</p>
<p><b>September Average Weekly Hours</b> Range: 34.4 to 34.6 hours Median: 34.5 hours</p>	<p>Friday, 10/7 Aug = 34.5 hours</p>	<p><u>Up</u> to 34.6 hours.</p>
<p><b>September Average Hourly Earnings</b> Range: 0.2 to 0.5 percent Median: 0.3 percent</p>	<p>Friday, 10/7 Aug = +0.3%</p>	<p><u>Up</u> by 0.4 percent, which would translate into a year-on-year increase of 5.1 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 1.0 percent increase in aggregate private sector wage and salary earnings, leaving them up 9.2 percent year-on-year.</p>
<p><b>September Unemployment Rate</b> Range: 3.6 to 3.8 percent Median: 3.7 percent</p>	<p>Friday, 10/7 Aug = 3.7%</p>	<p><u>Down</u> to 3.6 percent. There was a lot less to the "surge" in labor force participation in August than met the eye. A sizable portion of the reported increase in the labor force in August – up by 786,000 people – was nothing more than seasonal adjustment noise in the data on the 16-to-19 year-old age cohort. Another big driver of August's increase was a jump in participation amongst females in the 45-to-54 year-old age cohort, and it remains to be seen whether this was more than a one-off jump. Though having slowed, job growth remains more than sufficient to keep downward pressure on the unemployment rate, thus sustaining upward pressure on wage growth.</p>

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