ECONOMIC PREVIEW

REGIONS

Week of June 5, 2017

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 13-14 FOMC meeting):* Target Range Midpoint: 1.125 to 1.125 percent Median Target Range Midpoint: 1.125 percent	0.875%	We've characterized the May employment report as a big whiff that actually means very little. Headline job growth, at 138,000 jobs, came in well below expectations, which was accompanied by another middling increase in average hourly earnings. While the unemployment rate fell to 4.3 percent, that reflects a better than 400,000 person decline in the labor force, i.e., the unemployment rate fell for the wrong reason. As is the case with any economic data release, the first order of business is sifting through the noise, and there is a notably high degree of noise in the May employment report. With the 12th of May falling on the Friday of the survey week, the survey period was shorter in May than it typically the case, and over time this has tended to bias the estimates of job growth lower. Any such timing effect is nothing more than noise that will be made up for in subsequent months, i.e., it does not impact job growth, it simply alters how reported job growth is distributed across individual months. In addition, the 15th of the month falling out of the survey week, as was the case in May, has historically biased estimates of average hourly earnings lower. We think this played a role in the unimpressive gain reported for May, but, again, this is nothing more than noise. Finally, as the timing of the school year varies from year to year, it is inherently difficult to properly seasonally adjust the labor market data for the months of May and June, and this shows up in state and local government employment as well as the labor force data measuring activity amongst those 16 and 24 years old. There is ample evidence of this issue in the May employment report. We routinely note the best way to sift through the noise in the economic data is to look at the trends in the not seasonally adjusted data. Doing so shows that over the past 12 months the U.S. economy has added 2.223 million jobs, or, 185,000 per month, a rate more than sufficient to soak up the slack remaining in the labor market. As always, in the wake of the May employment report there are plenty of people wading into an ocean of data and picking out a single number than can magically explain a dynamic and complex labor market. We'd rather sift through the data and sort out the noise and read the underlying trends. Those trends are still healthy, and a very noisy May report doesn't change that. We suspect the FOMC will come to the same conclusion.
April Factory Orders Monday, 6/5 Range: -0.4 to 0.3 percent Median: -0.2 percent	Mar = +0.5%	Up by 0.2 percent. Though declining durable goods orders will be a drag, we look for a rebound in orders for nondurable goods to push total orders marginally higher for the month. Orders for capital goods excluding nondefense aircraft, i.e., core capital goods, should be up by 0.1 percent. While Q1 saw a nice bounce in business investment spending, core capital goods orders have flattened out over the past two months, which could reflect the corporate sector going into a holding pattern as they wait for some kind of clarity on the outlook for meaningful changes to tax and regulatory policies. Expectations have been high, but thus far policy proposals, let alone actual policy changes, have been few and far between. This isn't to say that business investment will shrivel up completely in the absence of policy changes, but instead that firms simply need to know what the policy landscape will look like. If our take on this is correct, there may not be much movement in core capital goods orders over coming months, meaning that the bounce in business investment seen in Q1 won't be sustained in the quarters ahead.
Q1 Nonfarm Productivity (rev.) Monday, 6/5 Range: -0.5 to 0.2 percent Median: -0.1 percent SAAR	Q1 pre = -0.6% SAAR	Up at an annual rate of 0.1 percent. Real nonfarm business output grew at an upwardly revised annual rate of 1.7 percent in Q1. This will result in an upward revision to productivity, but the trend rate of growth remains anemic. Our forecast would leave the 8-quarter moving average, our gauge of the underlying trend rate of productivity growth, at just 0.7 percent. Unless and until this improves, and by a large measure, materially faster real GDP growth on a sustained basis simply isn't in the cards.
Q1 Unit Labor Costs (rev.) Monday, 6/5 Range: 2.2 to 3.0 percent Median: 2.5 percent SAAR	Q1 pre = +3.0% SAAR	Up at an annualized rate of 2.3 percent. The flip side of the upward revision to productivity will be a downward revision to growth in unit labor costs, with the trend rate showing moderate growth in labor compensation costs largely in line with other measures that show labor costs rising at a firmer rate but one that is nonetheless well shy of the rate that would be associated with full employment.
May ISM Non-Manufacturing Index Monday, 6/5 Range: 56.5 to 60.1 percent Median: 57.1 percent	Mar = 57.5%	Down to 57.1 percent. While we look for the business conditions and new orders components to give back some of April's gains, the overall index will nonetheless be consistent with steady expansion in the non-manufacturing sector of the economy.

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