ECONOMIC PREVIEW

REGIONS

Week of October 29, 2018

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 7-8 FOMC meeting):* Target Range Midpoint: 2.125 to 2.125 percent Median Target Range Midpoint: 2.125 percent	Range: 2.00% to 2.25% Midpoint: 2.125%	The October employment report (see page 2) is front and center in a very crowded week of releases. While growth in average hourly earnings – we and the consensus expect year-on-year growth to top 3.0 percent – will no doubt get most of the attention, the Employment Cost Index (see below) is a much more worthy measure of wage growth. No matter which measure you choose, however, it must be assessed in conjunction with productivity growth (see below). With profit margins under siege on multiple fronts (input costs, transportation costs, labor costs), what should be another solid quarter of labor productivity growth will have held down growth in unit labor costs, thus offering some badly needed relief to profit margins. The key, however, is the extent to which the nice bump in productivity growth seen in the middle two quarters of 2018 can be sustained going forward, which has implications for wage growth, profit margins, and monetary policy. No pressure there, right?
September Personal Income Monday, 10/29 Range: 0.2 to 0.4 percent Median: 0.4 percent	Aug = +0.3%	Up by 0.4 percent, with private sector wage and salary earnings, rental income, and proprietors' income doing most of the heavy lifting. Our forecast would leave total personal income up 4.6 percent year-on-year, with private sector labor earnings up 5.2 percent, matching the pace that has prevailed over the past 16 months.
September Personal Spending Monday, 10/29 Range: 0.2 to 0.4 percent Median: 0.4 percent	Aug = +0.3%	Up by 0.4 percent. Spending on consumer durable goods should be up big, led by motor vehicles and home furnishings/appliances, but gasoline will be a drag on sales of nondurable goods and weak restaurant sales will weigh on services spending. The September data were incorporated into last week's initial estimate of Q3 GDP, from which we know real consumer spending grew at a healthy 4.0 percent clip in Q3.
September PCE Deflator Monday, 10/29 Range: 0.1 to 0.2 percent Median: 0.1 percent	Aug = +0.1%	Up by 0.1 percent, which yields a year-on-year increase of 2.0 percent. We look for the core PCE deflator to also be up by 0.1 percent, good for a 1.9 percent year-on-year increase.
October Consumer Confidence Tuesday, 10/30 Range: 133.0 to 138.6 Median: 136.0	Sep = 138.4	Down to 135.8 – the considerable volatility in equity prices seen over the month of October likely put a small dent into consumer confidence. Consumers, however, remain notably upbeat on labor market conditions (with good cause, we might add), which should help sustain confidence at levels last seen in the year 2000.
Q3 Employment Cost Index Wednesday, 10/31 Range: 0.5 to 0.8 percent Median: 0.7 percent	Q2 = +0.6%	Up by 0.8 percent, with wage costs up 0.8 percent and benefit costs up 0.7 percent. Our forecast would leave the total ECI up 2.9 percent year-on-year, with wage costs up 2.8 percent and benefit costs up 2.9 percent. The ECI is our preferred gauge of growth in labor compensation costs, and the wage component of the ECI is consistent with other measures showing wage growth steadily accelerating but still slower than would be implied by an unemployment rate below 4.0 percent. That said, our forecast would mark the fastest wage growth as measured by the ECI since Q3 2008.
Q3 Nonfarm Productivity Thursday, 11/1 Range: 1.7 to 3.0 percent Median: 2.0 percent SAAR	Q2 = +2.9% SAAR	Up at an annualized rate of 2.7 percent. Real output in the nonfarm business sector grew at an annualized rate of 4.1 percent in Q3, easily outpacing growth in hours worked. This sets up another nice gain in labor productivity.
Q3 Unit Labor Costs Thursday, 11/1 Range: -0.3 to 2.0 percent Median: 1.1 percent SAAR	Q2 = -1.0% SAAR	Up at an annualized rate of 0.6 percent. Another quarter of solid productivity growth will blunt the impact of what was faster growth in hourly compensation, resulting in only modest growth in unit labor costs and thus helping preserve profit margins.
October ISM Manufacturing Index Thursday, 11/1 Range: 58.0 to 60.3 percent Median: 59.0 percent	Sep = 59.8%	Down to 58.6 percent. Our forecast anticipates a decline in the headline index but would still leave the index at a level consistent with solid growth in the factory sector. We simply think we're due for some pullback in the sub-indexes for new orders and current production, which have been at lofty levels for some time now. One downside risk to our forecast is supplier delivery times – recall that in June the sub-index for delivery times hit a 14-year high as transportation bottlenecks slowed deliveries to a crawl. Those bottlenecks have been less severe in subsequent months, and if delivery times improved at a faster rate in October than our forecast anticipates, the headline index will come in below our forecast.
September Construction Spending Thursday, 11/1 Range: -0.5 to 0.5 percent Median: 0.2 percent	Aug = +0.1%	Down by 0.4 percent. Data on starts and completions suggest a weak month for residential construction put in place, only part of which can be attributed to Hurricane Florence. We look for public sector construction outlays to have fallen as well.
September Trade Balance Friday, 11/2 Range: -$54.1 to -$50.0 billion Median: -$53.4 billion	Aug = -$53.2 billion	Widening to -$53.6 billion. The advance data on trade in goods show a larger deficit in the goods account, but our forecast anticipates a wider surplus in the services account which will help limit the increase in the total trade deficit.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

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September Factory Orders Range: -1.1 to 0.7 percent Median: 0.5 percent	Friday, 11/2	Aug = +2.3%	Up by 0.6 percent. A spike in orders for defense aircraft led to a surprise increase in durable goods orders in September despite middling readings in other categories. Still, core capital goods orders posted solid growth in Q3, and we see further upside room here over coming quarters.
October Nonfarm Employment Range: 170,000 to 210,000 jobs Median: 190,000 jobs	Friday, 11/2	Sep = +134,000	Up by 208,000 jobs, with private sector payrolls up by 202,000 jobs and public sector payrolls up by 6,000 jobs. There is considerable play in our forecast as October was the second straight month in which a hurricane struck during the establishment survey week. Just as the adverse effects Hurricane Florence had on the September data would have been at least partially reversed in the October data, Hurricane Michael will have held down job counts and hours worked in the afflicted areas. On net, we look for job counts in retail trade and leisure & hospitality services to have risen in October after being pulled down by Florence in September. Beneath these distortions, however, the underlying trend rate of job growth remains notably robust for this late into an expansion, and job growth remains broad based.
October Manufacturing Employment Range: 10,000 to 25,000 jobs Median: 16,000 jobs	Friday, 11/2	Sep = +18,000	Up by 18,000 jobs.
October Average Weekly Hours Range: 34.5 to 34.5 hours Median: 34.5 hours	Friday, 11/2	Sep = 34.5 hours	Unchanged at 34.5 hours.
October Average Hourly Earnings Range: 0.1 to 0.3 percent Median: 0.2 percent	Friday, 11/2	Sep = +0.3%	Up by 0.1 percent, which nonetheless yields a year-on-year increase of 3.1 percent. Our below-consensus forecast is based on two factors. First, the October survey week ended prior to the 15th of the month, and historically in such instances measured growth in average hourly earnings tends to be biased lower. Second, to the extent we are correct in our call that job counts in retail trade and leisure & hospitality services will rebound from September's declines, that too will bias growth in average hourly earnings lower. Still, even if our forecast is correct, we suspect all eyes will be on the year-on-year increase rather than the monthly change – the 3.1 percent increase would be the largest year-on-year increase since April 2009. As we routinely note, however, growth in aggregate wage and salary earnings is of far more relevance than is growth in average hourly earnings (the latter is but one component of the former). Our calls on employment, hours worked, and hourly earnings would yield a 0.3 percent increase in aggregate private sector earnings, leaving them up 5.3 percent year-on-year. Wage and salary earnings are far and away the largest component of total personal income, and private sector labor earnings have been growing at better than a 5.0 percent pace over the past 16 months.
October Unemployment Rate Range: 3.6 to 3.8 percent Median: 3.7 percent	Friday, 11/2	Sep = 3.7%	Unchanged at 3.7 percent.

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