ECONOMIC PREVIEW

REGIONS

Week of October 28, 2019

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the October 29-30 FOMC meeting):* Target Range Midpoint: 1.625 to 1.625 percent Median Target Range Midpoint: 1.625 percent	Range: 1.75% to 2.00% Midpoint: 1.875%	This week's FOMC meeting comes amidst a backdrop of what has for the most part been disappointingly soft economic data, to be punctuated by an uninspiring report on Q3 GDP released early on day two of the FOMC meeting. As such, a 25-basis point cut in the Fed funds rate at this week's meeting is all but a given. That the vote to cut the funds rate is unlikely to be unanimous highlights the lack of consensus within the Committee as to what comes next. As hinted at in the minutes to last month's FOMC meeting, some members may want to signal a pause in, if not the end of, what they see as a mid-cycle adjustment, or at the very least offer guidance as to the conditions under which further rate cuts would not be warranted. Other members, however, will argue that the downside risks that triggered this series of rate cuts have not abated, at least to any meaningful degree, making it too soon to signal the end of what they see as an ongoing easing cycle. Look for Chairman Powell to attempt to strike a middle ground in his post-meeting press conference, meaning that he is likely to stress that the Committee is "data dependent." That is, however, much easier for us to write than it will be for him to do. As the markets have tended to not respond well to Mr. Powell's press conferences, he'll have his work cut out for him this week.
Sept. Advance Trade Balance: Goods Monday, 10/28 Range: -\$74.3 to -\$72.1 billion Median: -\$73.5 billion	Aug = -\$72.8 billion	<u>Widening</u> to -\$74.3 billion.
October Consumer Confidence Tuesday, 10/29 Range: 125.0 to 130.1 Median: 127.5	Sep = 125.1	<u>Up</u> to 129.8. A surprisingly weak report on September retail sales raised concerns that what has been a key pillar of support for the U.S. economy – consumer spending – was starting to crumble. We view the September retail sales report an outlier amongst other indicators, including consumer confidence, that paint a more constructive picture of U.S. consumers. In that sense, the report on October consumer confidence will put our view to the test. We expect a bounce off of September's decline, but even with that decline, confidence remains elevated relative to historical norms. As a signal of potential shifts in consumer spending, however, the survey questions on consumers' assessments of labor market conditions are more useful than the headline confidence number. Despite what has been a slower pace of job growth of late, consumers continue to feel very positive about the labor market. Unless and until this changes, neither will our outlook for consumer spending.
Q3 Real GDP – 1st est. Wednesday, 10/30 Range: 1.4 to 1.9 percent Median: 1.5 percent SAAR	Q2 = +2.0% SAAR	<u>Up</u> at an annualized rate of 1.4 percent. After having been a persistent drag on top-line real GDP growth over the past two years, residential fixed investment returns to the fold, making a positive contribution to Q3 growth. That contribution, however, will be modest, and no match for weak business investment and drags from trade and inventories, with growth in consumer spending slowing from Q2's unsustainable pace. The net result is a middling headline print on Q3 real GDP growth.
Q3 GDP Price Index – 1st est. Wednesday, 10/30 Range: 1.5 to 2.6 percent Median: 2.0 percent SAAR	Q2 = +2.4% SAAR	<u>Up</u> at an annualized rate of 1.6 percent.
September Personal Income Thursday, 10/31 Range: 0.2 to 0.4 percent Median: 0.3 percent	Aug = +0.4%	<u>Up</u> by 0.4 percent. Our above-consensus forecast anticipates a spike in farm income, reflecting payouts from the *Market Facilitation Program* (MFP), intended to assist farmers adversely impacted by trade disputes. Payouts began in mid-August, and we had expected to see some impact in the August data on personal income, which turned out not to be the case. Though that could change with revisions to the August data, our forecast piles the early MFP payouts into the September data, accounting for one-tenth of a point in the monthly change in total personal income. Though by no means dismissing the significance of the MFP payouts to the recipients, in terms of total personal income this is little more than background noise, and our focus remains on the main components of personal income. That average hourly earnings were flat in September while aggregate hours worked barely budged suggests only a meager gain in private sector wage and salary earnings, far and away the largest component of personal income. Growth in rental income has been curiously tame in recent months, but our forecast anticipates faster growth in September which, along with an increase in asset-based income, will support top-line income growth. Our forecast would leave total personal income up 4.99 percent year-on-year.
September Personal Spending Thursday, 10/31 Range: 0.2 to 0.3 percent Median: 0.3 percent	Aug = +0.1%	<u>Up</u> by 0.3 percent, with growth in spending on services accounting for most of the growth amidst sluggish growth in spending on goods. We look for the <u>PCE deflator</u> to be <u>unchanged</u> and for the <u>core PCE deflator</u> to be <u>up</u> by 0.1 percent.

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Q3 Employment Cost Index Range: 0.6 to 0.8 percent Median: 0.7 percent	Thursday, 10/31	Q2 = +0.6%	We look for the total ECI to be up by 0.7 percent, with the wages component up by 0.7 percent and the benefits component up by 0.8 percent. On an over-the-year basis, this would leave the total ECI up by 2.8 percent, wages up 2.8 percent, and benefit costs up by 2.7 percent. It should be noted, however, that the over-the-year comparison for Q3 wage costs is somewhat challenging given that Q3 2018 saw the largest quarterly increase in wage costs of any quarter since Q1 2007. The ECI is our, and, more importantly, the FOMC's, preferred gauge of growth in labor costs, and continues to show faster but still moderate growth in labor compensation costs.
October ISM Manufacturing Index Range: 47.1 to 50.8 percent Median: 48.0 percent	Friday, 11/1	Sep = 47.8%	Up to 49.1 percent. In this case, however, up still means down, given that we look for the headline index to remain below the 50.0 percent break between contraction and expansion. To us, the most striking thing about the September data was that only three of the 18 industry groups reported growth in September, the fewest since April 2009. We don't look for things to have gotten much better in October, and our forecast anticipates the indexes for new orders, employment, and current production remaining below 50.0 percent. Backlogs of unfilled orders are vanishing which, in the absence of a broad based rebound in new orders, will trigger further cuts in employment and production. Without meaningful progress on the trade front, it is hard to see a quick end to what ails the manufacturing sector.
September Construction Spending Range: 0.0 to 0.6 percent Median: 0.2 percent	Friday, 11/1	Aug = +0.1%	Up by 0.2 percent.
October Nonfarm Employment Range: 50,000 to 122,000 jobs Median: 100,000 jobs	Friday, 11/1	Sep = +136,000 jobs	Up by 58,000 jobs, with private sector payrolls up by 64,000 jobs and public sector payrolls down by 6,000 jobs. While it is highly unlikely that the effects of the GM strike will be sufficient to end a record run of 108 consecutive months of growth in nonfarm employment, the strike will be a significant drag on October job growth. With the strike now over, there will be payback in the November data, but with the pace of job growth having clearly slowed ahead of the strike, these strike-related swings will make it that much harder to get a sense of the trend rate of job growth. We know from the data on initial claims for unemployment insurance that firms have not stepped up the rate at which they are laying workers off, so it is the slowing rate at which they are hiring new workers that is behind the deceleration in job growth. And, speaking of noise in the data, holiday-related hiring in retail trade has traditionally begun in October. Given the ongoing structural changes within retail and this year's late Thanksgiving, there was likely much less seasonal hiring this October than in past years, which raises the possibility that seasonal adjustment noise could hold down measured job growth in October, which is the last thing we need in light of the GM strike. Though many analysts are incorporating additional hiring related to the 2020 Census into their forecasts, our understanding is that there was no such hiring in October, and we look for a modest decline in public sector payrolls.
October Manufacturing Employment Range: -75,000 to -4,000 jobs Median: -50,000 jobs	Friday, 11/1	Sep = -2,000 jobs	Down by 58,000 jobs. The BLS's October strike report shows 46,000 GM workers out on strike, which is the number that should be incorporated into the October employment report. What is less certain is how many of the layoffs at downstream parts suppliers will be captured in the employment report, which adds to the uncertainty in our forecast of manufacturing, and in turn, total, employment.
October Average Weekly Hours Range: 34.3 to 34.4 hours Median: 34.4 hours	Friday, 11/1	Sep = 34.4 hours	Down to 34.3 hours. If our assessment of the effects of the GM strike on the mix of jobs in October is on or near the mark, the average workweek will be shorter and hourly earnings (see below) will be lower than would otherwise be the case.
October Average Hourly Earnings Range: 0.0 to 0.3 percent Median: 0.3 percent	Friday, 11/1	Sep = 0.0%	Up by 0.2 percent, for a year-on-year increase of 2.9 percent. Our calls on job growth, hours worked, and hourly earnings would yield no change increase in aggregate private sector wage and salary earnings, leaving them up 3.8 percent year-on-year, which would be the smallest such increase since January 2017.
October Unemployment Rate Range: 3.5 to 3.6 percent Median: 3.6 percent	Friday, 11/1	Sep = 3.*%	Up to 3.6 percent. Though the striking GM workers are not counted as unemployed, those caught up in layoffs by downstream suppliers are, which we think will push the headline jobless rate higher by one-tenth of a point.