ECONOMIC PREVIEW

REGIONS

Week of August 2, 2021

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 21-22 FOMC meeting):* Target Range Mid-point: 0.000 to 0.125 percent Median Target Range Mid-point: 0.125 percent	Range: 0.00% to 0.25% Midpoint: 0.125%	Real GDP grew at an annualized rate of 6.5 percent in Q2 according to the initial estimate from the Bureau of Economic Analysis. While Q2 growth fell short of the consensus forecast, which called for annualized growth of 8.5 percent, it was pretty much in line with our forecast of 6.9 percent growth. Many forecasters were wrong-footed by a sharp decline in inventories, which lopped 1.1 percentage points off of top-line real GDP growth. The Q2 GDP data embody the predicament facing the U.S. economy, which is that the supply side of the economy is simply unable to keep pace with demand, and this growing imbalance between supply and demand has fostered significantly faster inflation. For instance, nominal GDP, i.e., unadjusted for price changes, grew at an annualized rate of 13.0 percent in Q2, while the GDP Price Index advanced at an annualized rate of 6.0 percent, the fastest such increase since Q4 1981. Sure, it isn't a matter of whether the imbalance between supply and demand will close, it's a matter of when. Nothing we've heard in the Q2 earnings commentary suggests a resolution is close at hand. Instead, firms report being held back by difficulty in sourcing non-labor inputs, shipping backlogs, and lingering labor supply constraints, with costs for materials, shipping, and labor continuing to rise. "Transitory" has given way to "temporary" in the characterization of inflation pressures but, either way, relief is likely to be slow in coming.
July ISM Manufacturing Index Monday, 8/2 Range: 59.8 to 62.0 percent Median: 60.8 percent	Jun = 60.6%	Up to 60.8 percent. The overall theme of the survey is unlikely to have changed, i.e., the manufacturing sector remains in the midst of a broad based expansion, but supply constraints and transportation logjams are acting as meaningful drags on the pace of growth. The ISM's survey will offer insight into whether, or to what extent, these drags eased in July. We look for further increases in the indexes measuring production and inventories with the employment index edging higher after having fallen below the 50.0 percent mark in June. While our forecast anticipates slight improvement in supplier delivery times, this will actually penalize the headline index but that would not be something to complain about. It will be interesting to see whether the tone of comments by survey respondents has changed; comments in the past two surveys have had a decided edge to them, revealing an increasing degree of frustration over input shortages, labor supply issues, and longer delivery times. So, while our view has always been that numbers speak more loudly than words, in this case we'll be interested in both.
June Construction Spending Monday, 8/2 Range: -0.3 to 1.4 percent Median: 0.4 percent	May = -0.3%	Up by 0.6 percent. For some time now residential construction, particularly single family construction, has been propping up total construction spending. That has remained the case even as the pace of single family construction slowed in Q2. Keep in mind, however, that the data on construction spending are reported in nominal terms, i.e., they are not adjusted for price changes, and incorporate all expenditures related to construction costs, including materials, labor, and profits. While we've always harbored questions over the reliability of this data series, it does help to understand how the dollar volume of single family construction can keep rising even as the number of units being constructed has slowed.
June Factory Orders Tuesday, 8/3 Range: 0.5 to 1.7 percent Median: 1.0 percent	Apr = -0.6%	Up by 1.2 percent.
July ISM Non-Manufacturing Index Wednesday, 8/4 Range: 58.0 to 62.1 percent Median: 60.5 percent	Jun = 60.1%	Down to 59.9 percent. Admittedly, the decline in the non-manufacturing index in June took us by surprise, particularly the decline in the index of overall business activity, given that reopening effects seem to have kicked into a higher gear in June. To be sure, many of the supply chain/logistics issues that have become unwelcome guests in the ISM's survey of the factory sector have also made their way into the broader services sector. As such, we're not sure what to expect from the July survey, but will be looking for any signs that the supply-side constraints are at least easing. And, as with the manufacturing survey, we'll also be interested in the tone of comments from respondents to the non-manufacturing survey.
June Trade Balance Thursday, 8/5 Range: -$74.8 to -$70.0 billion Median: -$74.0 billion	May = -$71.2 billion	Widening to -$74.4 billion. The deficit in the goods account increased as growth in imports easily outdistanced growth in exports, and we look for a smaller surplus in the services account.

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July Nonfarm Employment Range: 350,000 to 1,100,000 jobs Median: 858,000 jobs	Friday, 8/6	Jun = +850,000 jobs	Up by 936,000 jobs, with private sector payrolls up by 854,000 jobs and public sector payrolls up by 82,000 jobs. While we expect another hefty increase in public sector payrolls, this is nothing more than a repeat of the seasonal quirk that resulted in the seasonally adjusted data showing public sector payrolls rose by 188,000 jobs in June, and if we're correct on this point, it will reflect nothing more than noise in the data. As such, the focus should be on private sector job growth, which in June was in line with our expectations with private sector payrolls having risen by 642,000 jobs. One caveat is that, as with the data on public sector payrolls, the data on private sector payrolls may be riddled with seasonal adjustment noise, particularly within the manufacturing and construction sectors. With that duly noted, our forecast of a larger increase in private sector payrolls in July is predicated on there having been an uptick in labor force participation. As is the case across the U.S. economy, the labor market has been characterized by supply not keeping pace with demand, which has weighed down job growth while putting increasing upward pressure on wages. Even if participation did tick higher in July, that will still leave a vast gap between labor supply and labor demand which is unlikely to be pared down to a more meaningful degree until the fall. As has been the case over the past several months, we expect the biggest job gains to come in leisure and hospitality services where, as of June, payrolls remain 2.18 million jobs below their level as of February 2020.
July Manufacturing Employment Range: 15,000 to 35,000 jobs Median: 30,000 jobs	Friday, 8/6	Jun = +15,000 jobs	Up by 28,000 jobs. It could be that seasonal adjustment noise tied to what normally would be annual shutdowns amongst producers of motor vehicles for production line maintenance and updates biases the estimate of employment in this industry group higher. Aside from this, we look for modest increases across most of the other main manufacturing industry groups.
July Average Weekly Hours Range: 34.6 to 34.8 hours Median: 34.7 hours	Friday, 8/6	Jun = 34.7 hours	Unchanged at 34.7 hours.
July Average Hourly Earnings Range: 0.2 to 0.5 percent Median: 0.3 percent	Friday, 8/6	Jun = +0.3%	Up by 0.4 percent, which would translate into a year-on-year increase of 3.9 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 1.1 percent increase in aggregate private sector wage and salary earnings.
July Unemployment Rate Range: 5.5 to 5.9 percent Median: 5.7 percent	Friday, 8/6	Jun = 5.9%	Down to 5.6 percent. Though we look for an uptick in labor forecast participation, our forecast anticipates a much larger increase in household employment to push the unemployment rate lower, though our forecast could be a bit ambitious. The reported decline in household employment in June was to some extent a product of seasonal adjustment noise (that term again!) in the data on the 16-to-24 year-old age cohort, and we anticipate some element of payback in the July data. Our main interest will be the data on the 25-to-54 year-old age cohort, often referred to as the "prime working age" population. Participation amongst this key cohort increased in June but nonetheless remains well below the pre-pandemic rate, particularly amongst females. Aside from the level of employment, participation amongst the prime working age population will be a key marker of whether there has been "substantial further progress" in restoring the health of the labor market.

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