

# ECONOMIC PREVIEW



REGIONS

Week of January 3, 2022

## Indicator/Action

### Economics Survey:

## Last

### Actual:

### Regions' View:

**Fed Funds Rate: Target Range Midpoint**  
(After the January 25-26 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%

To ring in the new year, the flow of economic data returns to a more normal rhythm this week, with the highlight being the December employment report (see Page 2). This week also brings the release of the minutes to the December FOMC meeting (Wednesday, 2:00 EST). The minutes will be closely scrutinized for the motivations around the Committee's decision to shift the tapering of the Fed's monthly asset purchases into a higher gear and signal a faster course of Fed funds rate hikes in the updated dot plot. Market participants will also be interested in any discussion around the timing between the end of the monthly asset purchases, with March now the likely ending point, the initial Fed funds rate hike, and the beginning of a (passive) unwinding of the Fed's balance sheet. Two points to keep in mind: 1) all of those things are subject to change in a highly volatile economic environment in which inflation remains notably elevated; and 2) given how different economic conditions, particularly labor market conditions, are now than was the case in the last cycle, it is highly unlikely that the relative timing of policy changes (asset purchases, rate hikes, balance sheet unwinding) will mirror the timing seen last time around.

**November Construction Spending**  
Range: 0.2 to 1.5 percent  
Median: 0.6 percent

Monday, 1/3

Oct = +0.2%

Up by 0.7 percent.

**December ISM Manufacturing Index**  
Range: 57.0 to 62.6 percent  
Median: 60.1 percent

Tuesday, 1/4

Nov = 61.1%

Up to 61.9 percent. One question hanging over the December economic data will be whether, or to what extent, the emergence of the Omicron variant disrupted economic activity, and the ISM's survey of the manufacturing sector will be the first piece of evidence we get. It is possible that the spike in case counts led to shipping and supply chain disruptions, in which case the ISM's index of delivery times will have risen, but keep in mind this would work to push the headline index higher, not lower. It is also possible that there were disruptions in the labor market, making it more difficult for firms to hire and retain labor. While our forecast does anticipate such disruptions, attempting to quantify them ex ante obviously injects considerable uncertainty into our forecast. Still, we look for the ISM survey to show continued growth in new orders and production and, as noted above, if we are correct in expecting some slowdown in delivery times, that will also be a support for the headline index.

**November Trade Balance**  
Range: -\$85.0 to -\$68.7 billion  
Median: -\$82.0 billion

Thursday, 1/6

Oct = -\$67.1 billion

Widening to -\$81.8 billion. Recall that the October data showed a surge in U.S. exports of goods and only a modest increase in imports of goods into the U.S., with the net result a dramatic drop in the deficit in the goods account. The advance data for November, however, show U.S. exports of goods gave back some of October's surge while imports of goods rose sharply, leading to a much wider deficit in the goods account. This will flow through to the overall trade deficit, which we expect to have widened considerably in November. We see the sharp swings in the trade data as much more of a reflection of backlogs at West Coast ports than of underlying economic conditions, and even if global supply chain and logistics bottlenecks do ease over the course of 2022, the monthly trade data could nonetheless remain quite volatile as supply-side conditions normalize. After knocking 1.26 percentage points off of Q3 growth, trade should be neutral to slightly additive to Q4 real GDP growth.

**November Factory Orders**  
Range: 0.4 to 2.5 percent  
Median: 1.5 percent

Thursday, 1/6

Oct = +1.0%

Up by 1.9 percent.

**December ISM Non-Manufacturing Index**  
Range: 64.0 to 69.0 percent  
Median: 67.0 percent

Thursday, 1/6

Nov = 69.1%

Down to 67.6 percent. The ISM's gauge of service sector activity soared to a new record high in October, which lasted all of one month before November brought a new record high. While we don't expect the December survey to bring yet another record high, our forecast would nonetheless be consistent with continued rapid expansion in the services sector. It would be reasonable to think that activity in the services sector would be more vulnerable to any Omicron-related disruptions than would be the case with the manufacturing sector, and, if so, our forecast could be too high. Still, we think it's more a matter of how robust the expansion in the services sector in December was, not whether that expansion continued. Our forecast does anticipate slower supplier delivery times to act as a support for the headline index, and we also expect another solid increase in new orders, the most important forward-looking data point in the both the manufacturing and services surveys.

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<b>December Nonfarm Employment</b> Range: 150,000 to 720,000 jobs Median: 412,000 jobs	Friday, 1/7	Nov = +210,000 jobs	<u>Up</u> by 484,000 jobs, with private sector payrolls <u>up</u> by 453,000 jobs and public sector payrolls <u>up</u> by 31,000 jobs. November job growth came in well below expectations, but there are reasons to be suspicious of that initial estimate. One reason is that the November survey period ended early, i.e., before the 15 <sup>th</sup> of the month, which would mean that jobs added over the second half of November wouldn't be captured in the establishment survey until the December survey. Additionally, the response rate to the November establishment survey was notably low, at 65.3 percent, which is the second lowest response rate of any month in 2021 and is also the lowest November response rate since 2008. The early end to the November survey period would suggest a larger December increase in measured job growth, and the low survey response rate would suggest a meaningful upward revision to the initial estimate of November job growth, and we think we'll see some of both. At the same time, however, it is unclear whether, or to what extent, the emergence of the Omicron variant will have impacted the labor market in December. It could be that the spike in case counts held down labor force participation, which would work to hold down December job growth while contributing to a larger decline in the unemployment rate than many are anticipating (see below). As has been the case over the past several months, there is also potential for considerable seasonal adjustment noise in the December data but, as in the November data, this could work in both directions. Seasonal adjustment noise may hold down reported job counts in the seasonally adjusted data for retail trade and warehousing/distribution services but could boost reported job counts in leisure and hospitality services and state/local government. Our take on the November employment report was that the details painted a more constructive picture of labor market conditions than did the headline job growth number, and we won't be at all surprised if the details of the December report paint a different picture than will the headline job growth number. In other words, just a typical monthly employment report.
<b>December Manufacturing Employment</b> Range: 25,000 to 45,000 jobs Median: 33,000 jobs	Friday, 1/7	Nov = +31,000 jobs	<u>Up</u> by 34,000 jobs.
<b>December Average Weekly Hours</b> Range: 34.7 to 34.8 hours Median: 34.8 hours	Friday, 1/7	Nov = 34.8 hours	<u>Unchanged</u> at 34.8 hours.
<b>December Average Hourly Earnings</b> Range: 0.3 to 0.5 percent Median: 0.4 percent	Friday, 1/7	Nov = +0.3%	<u>Up</u> by 0.4 percent, which would translate into a year-on-year increase of 4.2 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.8 percent increase in aggregate private sector wage and salary earnings.
<b>December Unemployment Rate</b> Range: 4.0 to 4.4 percent Median: 4.1 percent	Friday, 1/7	Nov = 4.2%	<u>Down</u> to 4.0 percent. The rebound in labor force participation has been halting and uneven and, amid the emergence of the Omicron variant, there's little reason to think that will have changed in December. Our below-consensus forecast of the December unemployment rate is premised on a much smaller increase in the labor force than that seen in November.

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