ECONOMIC PREVIEW

REGIONS

Week of September 5, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 20-21 FOMC meeting):* Target Range Mid-point: 2.875 to 3.125 percent Median Target Range Mid-point: 2.875 percent	Range: 2.25% to 2.50% Midpoint: 2.375%	Total nonfarm payrolls rose by 315,000 jobs in August, well below July's increase of 526,000 jobs, while the unemployment rate rose to 3.7 percent from 3.5 percent in July. Much of the reaction to the August employment report has revolved around what it might mean for the FOMC, and our view is not much. An extra week between the June and July survey periods likely pushed some of what otherwise would have been booked as August job growth into July. Additionally, if history is any guide, the initial estimate of August job growth will be revised higher over the next two months; over the past five years, the average upward revision between the first and third estimates of August job growth has been 119,000 jobs. The response rate to the August establishment survey tends to be low, biasing the initial estimate of job growth lower, and this year saw the lowest August response rate since 2006. As such, it isn't yet clear whether, or to what extent, the underlying trend rate of job growth has slowed. While a "surge" in labor force participation pushed the unemployment rate higher despite a sizable increase in household employment, a substantial portion of August's increase in the labor force is no more than seasonal adjustment noise. The not seasonally adjusted data show the number of those aged 16-to-19 in the labor force fell by 504,000 in August; while participation amongst this cohort typically declines in August as the school year starts up, this year's was the smallest August decline since 1987. Geared for a much larger decline, seasonal adjustment overcompensated, hence the reported increase of 331,000 in the seasonally adjusted data. While participation amongst the 25-to-54 year-old cohort, the "prime working age" population, did increase, females in the 45-to-54 year-old age group easily accounted for the largest share of the total increase, so at this point we're not sure what to make of participation amongst the prime working age population. In short, the August employment report doesn't alter the labor market math, i.e., labor supply is still no match for labor demand. Job growth remains strong, job vacancies remain notably elevated, and, even though having risen to 3.7 percent, the unemployment rate remains well below what many FOMC members would equate with full employment. As such, many, if not most, FOMC members would likely see overall labor market conditions as supportive of another "unusually large," i.e., 75-basis point, increase in the Fed funds rate at the September FOMC meeting.
August ISM Non-Manufacturing Index Tuesday, 9/6 Range: 53.0 to 57.2 percent Median: 55.4 percent	Jul = 56.7%	Up to 57.0 percent. As with the ISM's survey of the manufacturing sector, the August seasonal adjustment factors are considerably more friendly than those used to adjust the services sector data for June and July. This could provide a boost to the headline index despite industry groups such as construction and retail trade having slowed considerably. Regardless of what the headline index number turns out to be, we'll attach much more significance to the underlying details. For instance, in the July survey only thirteen of the eighteen industry groups included in the ISM's survey reported expansion, the lowest number since May 2020. A further decline in the August survey would indicate that, as in the manufacturing sector, the expansion in the services sector has become meaningfully less broad based, raising a red flag. In the August survey of the manufacturing sector, more industry groups reported declines in new orders and production than reported growth despite friendly seasonal adjustment helping keep these indexes over 50.0 percent, so we'll be watching these cuts in the survey of the services sector (with the business activity index playing the role of the production index in the manufacturing survey). Finally, we'll be watching the prices paid index for signs of relief from non-labor input cost pressures. Recall that the prices paid index in the manufacturing survey has plummeted over the past two months. While the August services sector survey should see a similar decline, it is worth noting that for many services providers labor costs account for a greater share of total costs than is the case amongst goods providers. As such, cost pressures facing service providers are likely not easing to the extent implied by the declines in the prices paid index in the ISM survey.
July Trade Balance Wednesday, 9/7 Range: -\$75.0 to -\$68.1 billion Median: -\$70.3 billion	Jun = -\$79.6 billion	Narrowing to -\$69.9 billion.

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