ECONOMIC PREVIEW

Week of October 31, 2022

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the November 1-2 FOMC meeting):* Target Range Mid-point: 3.875 to 4.125 percent Median Target Range Mid-point: 3.875 percent	Range: 3.00% to 3.25% Midpoint: 3.125%	With a fourth consecutive 75-basis point increase in the Fed funds rate all but a given and no new economic and financial projections to be released, the focus at this week's FOMC meeting will be squarely on Chairman Powell's post-meeting press conference. As telegraphed in a recent *Wall Street Journal* piece, the Committee is contemplating how, and how strongly, to communicate a transition to a slower pace of rate hikes beyond this week's meeting. Mindful that rate hikes work their way through the economy with long and variable lags, the FOMC senses that, having pushed the funds rate well above its estimate of neutral (including this week's move), it is time to slow down and assess the impacts on growth and inflation, putting them in the same place several other central banks around the globe have arrived at. Our sense is that the *Journal* piece was timed to give the Committee a chance to assess the market reaction as a way of helping refine Chairman Powell's messaging at this week's press conference. While better than expected Q3 earnings (the tech sector aside) have no doubt contributed to the recent run-up in equity prices, we can't help but think that visions of a quick pivot from rate hikes to rate cuts, triggered by that *Journal* piece, have played no small part in pushing stock prices higher. While the fixed income markets seem to have taken that piece much more in stride, the rally in equity markets – which has contributed to some easing in financial conditions – will only lead Chairman Powell to reinforce two points he would no doubt have stressed anyway. First, that a slower pace of increases does not necessarily mean a lower terminal funds rate and, second, that even when the FOMC stops this series of rate hikes, it will be some time before they actually begin cutting the funds rate. Chairman Powell is also likely to note that, while the pace of rate hikes will at some point slow, it is not a given that will occur at the December FOMC meeting. Indeed, as this point anything from twenty-five to seventy-five basis points seems possible for that meeting, depending on how the inflation prints read between now and then. For whatever reason, the notion of a quick pivot from rate hikes to rate cuts has taken on a Rasputin-like resistance to efforts to make it go away. Then again, we all know how that one turned out, and the FOMC will keep trying until they succeed.
October ISM Manufacturing Index Tuesday, 11/1 Range: 48.6 to 50.9 percent Median: 50.0 percent	Sep = 50.9%	Down to 49.6 percent. Our forecast anticipates the indexes of production, new orders, and employment will each be below the 50.0 line, which for employment and new orders would be the fourth monthly declines in the past five months. Softening capital spending and fading spending on consumer durable goods is taking a toll on new orders at a time when what were once sizable backlogs of unfilled orders have been whittled down considerably. This suggests further pullbacks in employment and production in the manufacturing sector in the months ahead. We've noted over the past few months that the expansion in the manufacturing sector has become slower and less broadly based, and even if October doesn't prove to be the month, it seems inevitable that the ISM's headline index will slip under 50.0 percent. It is worth noting that supplier delivery times are at least moving towards normalizing and price pressures on non-labor inputs have been abating, but these simply reflect the degree to which demand has diminished, as opposed to there having been meaningful relief on the supply side.
September Construction Spending Tuesday, 11/1 Range: -1.5 to 0.2 percent Median: -0.5 percent	Aug = -0.7%	Down by 0.6 percent.
September Trade Balance Thursday, 11/3 Range: -$74.2 to -$67.0 billion Median: -$72.0 billion	Aug = -$67.4 billion	Widening to -$72.3 billion.
September Factory Orders Thursday, 11/3 Range: -0.4 to 0.6 percent Median: 0.3 percent	Aug = 0.0%	Down by 0.4 percent. Save for a surge in nondefense aircraft orders that pulled the headline number higher, the report on September durable goods orders was much weaker than we had anticipated, particularly the decline in core capital goods orders. While the hopeful take would be that the September data were an instance of one-off noise, the more plausible take is that capital spending is slowing meaningfully in the face of a more uncertain economic outlook. Our forecast anticipates another decline in orders for nondurable goods to more than offset higher durable goods orders, led by orders for civilian aircraft, thus pushing total factory orders down in September.

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Q3 Nonfarm Labor Productivity Thursday, 11/3 Range: -1.0 to 1.3 percent Median: 0.5 percent SAAR	Q2 = -4.1% SAAR	Up at an annualized rate of 0.4 percent. Real output in the nonfarm business sector rose at an annualized rate of 2.8 percent in Q3, which we know from the BEA's initial estimate of Q3 GDP. We also know from the monthly employment reports that aggregate private sector hours worked rose at an annualized rate of 2.5 percent while aggregate hours worked by the self-employed declined at a 7.8 percent rate. These are not the only inputs that go into the BLS's estimate of aggregate hours worked in the data on labor productivity, which always makes forecasting productivity a tricky endeavor. Nonetheless, we expect a modest increase in productivity after the steep declines seen in the first two quarters of 2022. Our forecast would, however, leave the eight-quarter moving average, which we think to best reflect the trend in labor productivity, negative for a second consecutive quarter after there not having been a single instance of this happening since Q3 1994. With what we believe to be structurally slower growth in labor supply, faster trend productivity growth will be critical in keeping the U.S. economy from being relegated to the slow lane.
Q3 Unit Labor Costs Thursday, 11/3 Range: 2.0 to 7.9 percent Median: 4.0 percent SAAR	Q2 = +10.2% SAAR	Up at an annualized rate of 4.3 percent, reflecting the modest increase in productivity and slower growth in hourly compensation.
Oct. ISM Non-Manufacturing Index Thursday, 11/3 Range: 53.0 to 56.5 percent Median: 55.1 percent	Sep = 56.7%	Down to 55.9 percent. To some extent, the October data in the non-manufacturing survey will be flattered by seasonal adjustment. That said, the broad services sector is thus far holding up better than the manufacturing sector. While new manufacturing orders have been trending downward, new orders in the services sector continue to grow at a healthy clip and, in contrast to the manufacturing sector, the expansion in the services sector remains notably broad based, suggesting it has further to run. It is also a telling sign of the relative strength in the two broad sectors that price pressures on non-labor inputs have subsided to a far greater degree in the manufacturing sector than in the services sector. This is consistent with what the retail-level inflation data have shown in recent months, i.e., goods price inflation easing while services price inflation accelerates.
October Nonfarm Employment Friday, 11/4 Range: 100,000 to 300,000 jobs Median: 190,000 jobs	Sep = +263,000 jobs	Up by 234,000 jobs, with private sector payrolls up by 223,000 jobs and public sector payrolls up by 11,000 jobs. Along with Tuesday's release of the September data on job openings, the October employment report will show further cooling in the demand for labor, and the October employment report will show further slowing in the pace of wage growth. While a deceleration in the pace of job growth was inevitable, what we can't determine with much precision is the degree to which concerns over the economic outlook are weighing on staffing decisions. One metric that will provide some guidance is the hiring diffusion index, a measure of the breadth of job growth across private sector industry groups, and hiring has for some time been notably broad based. Slower but still widespread hiring or slower and increasingly narrower hiring would tell us two different things. We still see the labor market as a seller's market, but to a lesser degree than has been the case.
October Manufacturing Employment Friday, 11/4 Range: 7,000 to 20,000 jobs Median: 15,000 jobs	Sep = +22,000 jobs	Up by 12,000 jobs. One place we're seeing both slower and less broadly based job growth is in the factory sector, which is consistent with the signals being sent by the ISM Manufacturing Index. We look for those trends to have continued in October.
October Average Weekly Hours Friday, 11/4 Range: 34.4 to 34.6 hours Median: 34.5 hours	Sep = 34.5 hours	Unchanged at 34.5 hours.
October Average Hourly Earnings Friday, 11/4 Range: 0.2 to 0.5 percent Median: 0.3 percent	Sep = +0.3%	Up by 0.3 percent, for a year-on-year increase of 4.6 percent, which would be the smallest such increase since August 2021. Our calls on job growth, hours worked, and hourly earnings would yield a 0.4 percent increase in aggregate private sector wage and salary earnings, leaving them up 7.9 percent year-on-year.
October Unemployment Rate Friday, 11/4 Range: 3.4 to 3.7 percent Median: 3.6 percent	Sep = 3.5%	Unchanged at 3.5 percent. Though slower, the pace of job growth remains sufficient to absorb growth in the labor force. The household survey data are inherently volatile, which can result in small changes in the jobless rate from one month to the next, but we're some way from seeing a significantly higher unemployment rate.

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