ECONOMIC PREVIEW

Week of January 30, 2023

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the January 31-February 1FOMC meeting):* Target Range Mid-point: 4.625 to 4.875 percent Median Target Range Mid-point: 4.625 percent	Range: 4.25% to 4.50% Midpoint: 4.375%	Though the release of the January employment report (see Page 3) comes after the conclusion of this week's FOMC meeting, Tuesday's report on the Q4 Employment Cost Index (see below) and Wednesday's release of the December JOLTS data will help inform Committee members' perceptions of labor market conditions and could help set the tone of Chair Powell's post-meeting press conference. While we expect the body of this week's slate of labor market data to show cooling demand for labor and further deceleration in growth of total labor costs, the message from the data could still seem mixed. For instance, while we look for the JOLTS data to show a further decline in job vacancies, the ratio of vacancies to unemployed persons will still be far above pre-pandemic norms, as will the rate at which workers are quitting jobs voluntarily. And, while the quarter/quarter changes in labor costs as measured by the Employment Cost Index are moderating, the year/year changes will remain high enough to make some FOMC members uncomfortable. Even if the broader point of the labor market data is that job growth and growth in labor costs are moderating, the recent increase in gasoline prices looms as a reminder that the FOMC is far from declaring inflation has been vanquished. After having been a meaningful drag in five of the prior six months, gasoline was a support for headline inflation in January. While much of the recent run-up in gasoline prices is a function of refinery disruptions that won't linger, higher pump prices reinforce worries about the potential impact of China's economy getting back online on energy and commodity prices and, in turn, inflation, potentially posing a dilemma for the FOMC in the form of rising headline inflation and slowing core inflation. As for this week's FOMC meeting, we and most others expect a 25-basis point hike in the Fed funds rate, though some don't rule out another 50-basis point hike as a means of the FOMC pushing back on the easing in overall financial conditions seen over the past several weeks. We expect the Committee to use the post-meeting policy statement and Chair Powell's post-meeting press conference to influence broader financial conditions. For instance, we think it likely the policy statement will retain the reference to "ongoing increases" in the funds rate as being appropriate to properly calibrate the policy stance, though some expect "further" to take the place of "ongoing" in this line. Additionally, Chair Powell is likely to stress that while the Committee may indeed be winding down the present round of rate hikes, it is far too soon to even entertain the possibility of rate cuts, with the "higher for longer" message being used to counter further easing in overall financial conditions.
Q4 2022 Employment Cost Index Tuesday, 1/31 Range: 0.9 to 1.5 percent Median: 1.1 percent	Q3 = +1.2%	Up by 1.0 percent, with wage costs up 1.1 percent and benefit costs up 0.9 percent. On an over-the-year basis, our forecast would leave the total ECI up 5.1 percent, wage costs up 5.2 percent, and benefit costs up 5.0 percent. The monthly employment reports and the personal income data both show growth in total labor costs is clearly decelerating. While we do not expect the Q4 ECI to show any such deceleration, that's just a matter of timing as we expect growth in labor costs as measured by the ECI to slow sharply as 2023 progresses. The ECI is generally considered to be the most reliable measure of trends in labor costs, as it is free of the mix issues that can distort the average hourly earnings metric, while the ECI also accounts for benefit costs. That it comes on a quarterly frequency, however, means that the ECI can be tardy in picking up shifts in labor market conditions, which have softened over recent months. While some are suggesting that a hotter than expected read on the Q4 ECI could lead the FOMC to hike the Fed funds rate by fifty basis points at this week's meeting, we do not think that would be the case given ample, and more timely, evidence of cooling demand for labor and decelerating growth in labor costs.
January Consumer Confidence Tuesday, 1/31 Range: 105.0 to 112.5 Median: 109.0	Dec = 108.3	Up to 111.6 with help from easing price pressures, but at the same time headlines of sizable job cuts amongst many tech companies could temper any improvement in sentiment. To that point, the "jobs plentiful/jobs hard to get" spread will likely get more attention than usual (we always consider it the most important element of the Conference Board's monthly survey), and should consumers' assessments of labor market conditions deteriorate to a meaningful degree, that could easily act as a drag on discretionary spending.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

ECONOMIC PREVIEW

Week of January 30, 2023

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
January ISM Manufacturing Index Range: 46.3 to 50.5 percent Median: 48.0 percent	Wednesday, 2/1	Dec = 48.4%	Down to 47.8 percent. We look for new orders to have contracted for the seventh time in the past eight months, with the ISM's gauges of employment and production also remaining below the 50.0 percent break between contraction and expansion. The steady decline in new orders in the ISM survey telegraphed the softening in orders for core capital goods seen over recent months, and we expect the weakness seen in business investment in equipment/machinery seen in Q4 2022 to persist over coming months. The decline in the ISM's headline index is being magnified by improving supplier delivery times, which act as a drag on the headline index and are to some extent a reflection of how much demand has fallen over recent months. Another indication of the decline in demand is that prices for non-labor inputs have been falling, which in part accounts for the moderation in the rate of price increases measured in the Producer Price Index.
December Construction Spending Range: -0.7 to 0.6 percent Median: 0.0 percent	Wednesday, 2/1	Nov = +0.2%	Down by 0.2 percent.
Q4 2022 Nonfarm Productivity Range: 1.0 to 3.5 percent Median: 2.4 percent SAAR	Thursday, 2/2	Q3 = +0.8% SAAR	Up at an annual rate of 2.6 percent. From the GDP data we know that real output in the nonfarm business sector rose at an annualized rate of 3.5 percent in Q4, while data from the monthly employment reports show growth in aggregate hours worked slowed sharply. The net result should be a pick-up in the pace of labor productivity growth, with the operative word here being "should be" (okay, that's actually two words but, what with this whole transitory inflation thing, it now takes more words to say the same thing). This is where we insert our usual caveat about the productivity data, which is that the calculation of aggregate hours worked in the productivity data remains one of life's most enduring mysteries, and if the BLS's estimate varies from ours to a meaningful degree, our forecasts of productivity growth and unit labor costs will be off. The broader point is that more rapid productivity growth will mitigate whatever inflationary pressures may be stemming from the labor market.
Q4 2022 Unit Labor Costs Range: 0.5 to 2.2 percent Median: 1.5 percent SAAR	Thursday, 2/2	Q3 = +2.4% SAAR	Up at an annual rate of 0.7 percent. Slower growth in hourly compensation and faster productivity growth should act to hold down the increase in unit labor costs, which measure the labor costs of each unit of output produced.
December Factory Orders Range: 0.5 to 5.5 percent Median: 2.3 percent	Thursday, 2/2	Nov = -1.8%	Up by 1.9 percent. A surge in orders for nondefense aircraft pushed durable goods orders sharply higher in December. Our forecast anticipates a sizable decline in orders for nondurable goods, however, which will check the increase in total orders.
January ISM Non-Manufacturing Index Range: 49.0 to 54.0 percent Median: 50.5 percent	Friday, 2/3	Dec = 49.6%	Up to 50.6 percent. Aside from the decline seen at the onset of the pandemic, December's decline in the ISM Non-Manufacturing Index is the second largest on record, with the sudden decline in stark contrast to what for months had been a steady deterioration in the ISM Manufacturing Index. Moreover, eleven of the eighteen broad industry groups included in the non-manufacturing survey reported expansion in December, while the prices paid index continued to show meaningful upward pressure on prices of non-labor inputs, contrary to what you'd expect to see if demand were tumbling to the extent implied by the decline in the headline index. It is then perhaps understandable that we simply don't know what to make of the December survey, which in turn makes it hard to know what to expect from the January survey. Our sense is that while activity in the broad services sector slowed over the latter weeks of 2022, the ISM's December survey overstated the degree of that slowdown, hence our forecast putting the January index reading above the 50.0 percent break between contraction and expansion, even if only barely so. We'll be watching the new orders index more closely than any of the other components, and if the January data show a contraction in new orders, that will tell us the steep decline seen in the ISM's December survey was no fluke.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

ECONOMIC PREVIEW

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
January Nonfarm Employment Friday, 2/3 Range: 130,000 to 305,000 jobs Median: 185,000 jobs	Dec = +223,000 jobs	Up by 216,000 jobs, with private sector payrolls up by 205,000 jobs and public sector payrolls up by 11,000 jobs. First and foremost, the January employment report will incorporate the results of the BLS's annual benchmark revision process, in which prior estimates of nonfarm employment, hours, and earnings are benchmarked to the universe of payroll tax returns that nearly all firms are required to file. In their early look at the results, BLS suggested the level of nonfarm employment as of March 2022, the new "reference month," could be revised up by as many as 462,000 jobs, or, three-tenths of one percent of the level of nonfarm employment, which would be a larger than normal revision. At the same time, however, source data from payroll tax returns suggest job growth over the latter half of 2022 was slower than the BLS had been estimating, perhaps significantly so. As such, it could be that a level shift higher as of last March coupled with a slower pace of monthly job growth could leave the level of nonfarm employment as of year-end 2022 not too different than has been reported to date. But, even if that is the case, the slower pace of job growth would be more fitting with the clear slowing in the pace of economic activity over the latter stages of 2022. Additionally, don't underestimate the potential for revised seasonal adjustment factors to alter perceptions of labor market conditions over the past several months. We've frequently noted that typical seasonal patterns in economic activity have been significantly disrupted since the onset of the pandemic, and with the updated seasonal factors incorporating more recent history, the revised seasonally adjusted estimates should look less jumpy than has been the case (this is a point which will be applicable across much of the economic data). That said, the January data have always been flattered by seasonal adjustment and our forecast anticipates that remaining the case this year, which to a large extent accounts for our above-consensus forecast of January job growth. In any given year, January typically sees substantial layoffs in areas such as transportation and delivery services and retail trade, as workers hired during the holiday season are let go. With last year having seen meaningfully less holiday-season hiring in these areas than in each of the prior two years, it follows that January layoffs will be smaller as well, raising the potential for seasonal adjustment to overcompensate. Moreover, January also typically sees sizable seasonal layoffs in construction and leisure and hospitality services, and there is reason to think this year's January layoffs were smaller than normal. Indeed, the raw data show layoffs in construction in November and December to have been smaller than normal, in large measure because of record backlogs of housing units under construction, and we think that will again have been the case in January. At the same time, with employment in leisure and hospitality services still far below pre-pandemic levels, it is unlikely that January layoffs were as large this year as is typical for the month. This all adds up, revised seasonal factors notwithstanding, to the potential for significant seasonal adjustment noise in the first estimate of January nonfarm payrolls. Even if that proves to be the case, however, the more relevant point is that the trend rate of job growth is slowing, perhaps to a greater degree than has been evident in the data thus far, and growth in total labor costs is also decelerating rapidly.
January Manufacturing Employment Friday, 2/3 Range: -5,000 to 15,000 jobs Median: 8,000 jobs	Dec = +8,000 jobs	Up by 7,000 jobs.
January Average Weekly Hours Friday, 2/3 Range: 34.2 to 34.4 hours Median: 34.3 hours	Dec = 34.3 hours	Unchanged at 34.3 hours. Aggregate private sector hours worked declined in both November and December, as firms reluctant to let workers go use weekly hours as a lever with which to manage total labor input.
January Average Hourly Earnings Friday, 2/3 Range: 0.1 to 0.5 percent Median: 0.3 percent	Dec = +0.3%	Up by 0.2 percent, for a year-on-year increase of 4.2 percent. 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 6.5 percent year-on-year.
January Unemployment Rate Friday, 2/3 Range: 3.4 to 3.7 percent Median: 3.6 percent	Dec = 3.5%	Unchanged at 3.5 percent. The January household survey data incorporate new population controls and, as such, the January levels of the labor force and household employment will not be comparable to those of prior months. The rates, such as the unemployment rate, derived from the household survey will be comparable.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

This Economic Preview may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Preview. The Contents of this Economic Preview reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Preview or with respect to any results arising therefrom. The Contents of this Economic Preview shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.