ECONOMIC PREVIEW

REGIONS

Week of December 3, 2012

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on December 11-12)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	It isn't often that an upward revision to the economic data leaves us feeling down, but that is exactly the case with the Q3 GDP data. Originally pegged at 2.0 percent, annualized, Q3 real GDP is now reported to have grown at a 2.7 percent rate. The add-on, however, is primarily due to an inventory build that was nearly twice as large as first estimated. We think most of this build was unintentional and, as such, subject to a reversal in Q4 that will act as a drag on current quarter real GDP growth. We look for Q4 real GDP growth of only about 1.0 percent as growth in real consumer spending remains tame. If there is one part of the economy feeling better about Q3, it is the nonfarm corporate sector – corporate profits rose further in Q3 despite meager growth in top-line revenue. For an idea as to how workers feel about this, see our note below on unit labor costs.
November ISM Manufacturing Index Range: 50.0 to 52.5 percent Median: 51.4 percent	Monday, 12/3	Oct = 51.7%	Up to 52.0 percent. The various regional surveys aren't a lot of help here, as they turned in a decidedly mixed performance. Still, our sense is that the manufacturing sector is basically in a holding pattern, neither contracting nor expanding with a lot of conviction, so we look for little change in the ISM index.
October Construction Spending Range: -0.5 to 0.8 percent Median: 0.4 percent	Monday, 12/3	Sep = +0.6%	Up by 0.6 percent.
Q3 Nonfarm Productivity – Revised Range: 2.3 to 3.0 percent Median: 2.7 percent (annualized)	Wednesday, 12/5	Q3(p) = +1.9%	Up at an annualized rate of 2.9 percent, considerably higher than the initial estimate. Annualized Q3 growth in private nonfarm business output was revised up to 4.18 percent (from 3.25 percent), which buys us considerably faster productivity growth for the quarter.
Q3 Unit Labor Costs – Revised Range: -1.8 to -0.4 percent Median: -0.9 percent (annualized)	Wednesday, 12/5	Q3(p) = -0.1%	Down at an annualized rate of 1.6 percent, a sizeable downward revision to the initial estimate. This is due to what will be an upward revision to productivity growth along with what was a sharp downward revision to worker compensation in the Q3 NIPA data. Wage disbursements were knocked down by $44.8 billion (annualized) compared to the first estimate, which will contribute to the bigger decline in unit labor costs that helped preserve corporate profit margins.
October Factory Orders Range: -0.5 to 0.5 percent Median: 0.2 percent	Wednesday, 12/5	Sep = +4.8%	Up by 0.2 percent. With orders for durable goods flat during the month we look for a modest gain in orders for nondurable goods to push overall orders higher.
November Nonfarm Employment Range: 25,000 to 154,000 jobs Median: 110,000 jobs	Friday, 12/7	Oct = +171,000	Up by 116,000 jobs, with private sector payrolls up by 109,000 and government payrolls up by 7,000. Admittedly, we feel even less certain about this than is usually the case – and that's pretty darn uncertain – with Hurricane Sandy likely to have an impact on the numbers. During the November survey week, the four-week moving average of initial jobless claims was roughly 30,000 above that for the October survey week, which suggests the payroll data will show the effects of Sandy. Differences in methodologies between the two surveys lead us to believe there will be a larger impact on the payroll survey than the household survey. Even without the storm, we would still look for a payroll number short of the monthly average of 173,000 net new jobs per month over the past four months.
November Manufacturing Employment Range: -10,000 to 15,000 jobs Median: -3,000 jobs	Friday, 12/7	Oct = +13,000	Up by 4,000 jobs.
November Average Hourly Earnings Range: 0.0 to 0.2 percent Median: 0.2 percent	Friday, 12/7	Oct = 0.0%	Up by just 0.1 percent. Growth in average hourly earnings continues to be held down by the mix of jobs being added and what remains an elevated number of part-time workers. The only cure for this is significantly faster economic growth.
November Average Weekly Hours Range: 34.3 to 34.4 hours Median: 34.4 hours	Friday, 12/7	Oct = 34.4 hrs	Unchanged at 34.4 hours. Our expectations for private sector job growth, average hourly earnings, and hours worked yield another paltry gain in aggregate private sector earnings – up by 0.2 percent for the month and up just 3.4 percent year-over-year. This is the biggest factor behind what remains disappointingly slow growth in personal income.
November Unemployment Rate Range: 7.9 to 8.0 percent Median: 7.9 percent	Friday, 12/7	Oct = 7.9%	Unchanged at 7.9 percent which reflects some uncertainty as to the impact of Sandy, otherwise we would have penciled (but not penned) in 7.8 percent here.

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