ECONOMIC PREVIEW

REGIONS

Week of March 4, 2013

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on March 19-20)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	As the curtain comes up on Act II of the fiscal follies, i.e., the sequestration spending cuts, life goes on. We admit to having had some reservations on this front after countless renditions of tales of sequestration induced horror as each side tried to outdo the other. Still, it could be that no one aside from us is paying much attention. Consumers are learning to cope with higher taxes and higher gas prices, yet consumer confidence rose during February and auto sales rolled on. Firms are also moving on, with February's ISM manufacturing index rising sharply on a jump in new orders. The February employment report (see below) will be a good measure of how firms are feeling in the (not so) brave new (but getting really, really old) world of fiscal policy uncertainty.
January Factory Orders Range: -2.5 to -1.0 percent Median: -2.2 percent	Wednesday, 3/6	Dec = +1.8%	Down by 1.9 percent. A price-induced rise in orders for nondurable goods will offset some, but not all, of the decline in orders for durable goods caused by a steep decline in transportation orders. Orders for core capital goods rose thanks to a jump in machinery orders but shipments of core capital goods declined, indicating a wobbly start to 2013 for business fixed investment.
January Trade Balance Range: -\$44.5 to -\$40.1 bil Median: -\$43.0 bil	Thursday, 3/7	Dec = -\$38.5 bil	Widening to -\$42.3 billion.
Q4 Nonfarm Productivity – Revised Range: -2.0 to -1.3 percent Median: -1.6 percent SAAR	Thursday, 3/7	Q4 prelim = -2.0%	Down at an annualized rate of 1.6 percent. Revisions to the Q4 GDP data show a larger increase in nonfarm business output than initially reported which will soften the reported decline in worker productivity.
Q4 Unit Labor Costs – Revised Range: 3.7 to 4.7 percent Median: 4.0 percent SAAR	Thursday, 3/7	Q4 prelim = +4.5%	Up at an annualized rate of 4.2 percent. The revision to productivity should mean a less steep increase in unit labor costs. It is also worth noting that despite the sizeable increase during Q4, the longer term trend shows unit labor costs rising at a rate of less than two percent, reflecting the degree of labor market slack.
February Nonfarm Employment Range: 140,000 to 200,000 jobs Median: 152,000 jobs	Friday, 3/8	Jan = +157,000	Up by 182,000 jobs, with private sector payrolls up by 190,000 and government payrolls declining by 8,000 jobs. Two wild cards in the February data will be 1) the impact of the severe winter storm that hit the Northeast during the survey week; and 2) the impact of the looming sequestration spending cuts, which could have impacted job counts in defense related industries. On the former, we think it far more likely the impact of the storm will turn up in reduced hours worked, rather than job counts, as one needs only to be paid at any point in the pay period that includes the survey week to be counted as employed in the payroll data. Another factor to watch is the revisions to previously released estimates for January – the pattern of late has been for meaningful upward revisions to the initial estimate, and we will be watching to see if that pattern holds.
February Manufacturing Employment Range: 0 to 20,000 jobs Median: 8,000 jobs	Friday, 3/8	Jan = +4,000	Up by 8,000 jobs.
February Average Weekly Hours Range: 34.3 to 34.4 hours Median: 34.4 hours	Friday, 3/8	Jan = 34.4 hrs	Down to 34.3 hours. As noted above, we think this is where we will see the biggest impact of the winter storm. For anyone inclined to think a one-tenth of an hour change in the average workweek doesn't amount to much, consider that each such change in average hours worked is the equivalent to roughly 300,000 private sector jobs. As such, if the workweek does indeed contract it will very much be felt in aggregate earnings.
February Average Hourly Earnings Range: 0.1 to 0.3 percent Median: 0.2 percent	Friday, 3/8	Jan = +0.2%	Up by 0.2 percent. Together with our expectations for employment and hours, this yields a meager 0.1 percent gain in aggregate private sector earnings, which translates into an over-the-year gain of just 3.1 percent. To illustrate the impact of the average workweek, aggregate earnings would rise by 0.4 percent should the workweek hold at 34.4 hours.
February Unemployment Rate Range: 7.8 to 7.9 percent Median: 7.8 percent	Friday, 3/8	Jan = 7.9%	Down to 7.8 percent as we look for the gain in household employment to be more in line with that seen in payroll employment. Other metrics, such as the duration of unemployment, the number of long-term unemployed, and the number of those working part-time for economic reasons will be more telling indicators of the extent to which the labor market is actually healing.

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