ECONOMIC PREVIEW

REGIONS

Week of November 11, 2013

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on December 17-18)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	"Bring it on, baby." No doubt there are at least some people out there voicing similar sentiments in the wake of the stronger than anticipated October employment report, with "it" being another shutdown of the federal government. After all, if a 16-day partial shutdown got us 204,000 net new payroll jobs in October, think of how many jobs could be added if the partial shutdown lasted even longer, not to mention how many jobs could be added if the entire government went away . . . forever. Okay, maybe not. In fact, thinking back to that first, fateful day in Econ 101, we recall hearing something about correlation not implying causality. So, in other words, maybe the government shutdown is not what led October's job gains to be so much stronger than anticipated. It could be something as simple as the economy remained on its steady if not spectacular course despite the theatrics in Washington DC. Truth be told, those of us who held out such low hopes for the October employment report did so without a great deal of certainty as to how the shutdown would impact the payroll data. Turns out the answer was "not a lot" though this was not the case in the household data from which the unemployment rate is calculated. The declines in the labor force and household employment and the increase in the unemployment rate can be directly tied to how the federal government workers placed on furlough were accounted for, though these effects should be reversed in the November data. That puts the focus squarely back on the payroll data, and with an average of 194,000 net new jobs per month over the past twelve months talk has turned to the FOMC. Many analysts now see a higher probability of a vote to dial down the pace of the Fed's large-scale asset purchases at the December FOMC meeting, some even see such a move as a certainty. Really? Wow, first September was a sure thing (okay, we're guilty on that count), then it had to be March 2014, and now, due to one set of data, it's December? We're not there yet, and barring an even stronger November employment report, we won't get there. There remains an elevated degree of labor market slack and, come January, we may get to test that hypothesis about government shutdowns being good for job growth once again. One point seemingly missed is that inflation remains well below the Fed's target, which buys the FOMC time to be sure, at least as sure as they can be, before they pull the trigger on tapering. We don't see that being December.
Q3 Nonfarm Productivity Range: 0.9 to 3.1 percent Median: 1.9 percent SAAR	Thursday, 11/14	Q2 = +2.3%	<u>Up</u> at an annualized rate of 2.7 percent. Nonfarm business output rose at a better than expected annualized rate of 3.7 percent in Q3 while growth in aggregate hours worked slowed from Q2's pace. Together this should mean productivity growth picked up in Q3. Still, our preferred means of looking at productivity growth is on an eight quarter moving average basis, which captures the underlying trend without the quarter to quarter volatility. On this basis productivity growth would be running at just 1.2 percent, annualized, even with our above consensus call on Q3. The silver lining, though, is with productivity growth so tame, a pick-up in demand growth would lead to increased hiring as there is little additional productivity for firms to cull from their current workers.
Q3 Unit Labor Costs Range: -1.0 to 1.5 percent Median: 0.5 percent SAAR	Thursday, 11/14	Q2 = 0.0%	<u>Down</u> at an annualized rate of 1.0 percent, reflecting rapid productivity growth along with still tepid growth in real compensation. Given the elevated degree of labor market slack, even if firms do step up the pace of hiring, it will take some time for that to translate into more meaningful growth in compensation which, at least for the near term, is supportive of profit margins.
September Trade Balance Range: -\$41.6 to -\$37.0 billion Median: -\$39.0 billion	Thursday, 11/14	Aug = -\$38.8 bil	<u>Narrowing</u> slightly to -\$38.6 billion.
October Industrial Production Range: -0.1 to 0.4 percent Median: 0.2 percent	Friday, 11/15	Sep = +0.6%	<u>Up</u> by 0.4 percent. Much of September's large gain was fueled by a surge in utilities output which won't be repeated, but we look for solid growth in manufacturing output to have pushed overall output higher in October.
October Capacity Utilization Rate Range: 78.0 to 78.5 percent Median: 78.3 percent	Friday, 11/15	Sep = 78.3%	<u>Up</u> to 78.5 percent.

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