ECONOMIC PREVIEW

REGIONS

Week of February 3. 2014

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on March 18-19)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	The past two weeks have seen long-term interest rates fall rapidly – yields on the 10-year U.S. Treasury note are now roughly 30 basis points lower than they ended 2013 – as capital has flowed out of emerging markets in a flight to quality (or, as we insist on referring to it, a flight to relative quality) trade. One commonly cited catalyst is the Fed beginning to pull the plug on QE-3. Really, you just have to love the irony here, as the beginning of the end of QE-3 has done more to lower long-term U.S. interest rates than QE-3 itself ever did. Still, it may be a bit of a reach to attribute capital flowing (fleeing?) from emerging markets to a policy change everyone on the planet had to have seen coming. During the global search for yield capital inflows masked some serious policy flaws and economic imbalances which sooner or later would have come to the forefront. As such, the Fed dialing down QE-3 is more an excuse than a cause, but, either way, the U.S. economy stands to gain from lower, at least for now, long-term rates.
January ISM Manufacturing Index Range: 53.5 to 57.5 percent Median: 56.1 percent	Monday, 2/3	Dec = 56.5%	Down slightly to 56.3 percent, still indicative of steady growth in the manufacturing sector. Note: the December value shown here reflects revisions incorporating new seasonal adjustment factors.
December Construction Spending Range: -2.0 to 1.1 percent Median: 0.2 percent	Monday, 2/3	Nov = +1.0%	Down by 0.8 percent, with declines across the board as we look for lower residential, commercial, and government construction outlays.
December Factory Orders Range: -2.3 to 3.5 percent Median: -1.5 percent	Tuesday, 2/4	Nov = +1.8%	Down by 2.2 percent. Durable goods orders took a surprising tumble, falling by better than four percent, and a higher volume of orders for nondurable goods will offset part, but not all, of that decline.
Q4 Nonfarm Productivity Range: 1.8 to 3.6 percent Median: 2.5 percent SAAR	Thursday, 2/6	Q3 = +3.0%	Up at an annualized rate of 3.2 percent. Nonfarm business output rose at an annualized rate of 4.9 percent in Q4, easily outpacing growth in aggregate hours worked with the net result being another quarter of rapid productivity growth. We do not, however, see this as a sustainable pace. Our preferred means of looking at the productivity data is on an 8-quarter moving average basis, which shows productivity growth plodding along at around 1.2 percent.
Q4 Unit Labor Costs Range: -2.0 to 1.5 percent Median: -0.5 percent SAAR	Thursday, 2/6	Q3 = -1.4%	Down at an annualized rate of 0.9 percent, reflecting the rapid rate of worker productivity growth and what remains middling growth in worker compensation.
December Trade Balance Range: -$38.5 to -$31.8 billion Median: -$36.0 billion	Thursday, 2/6	Nov = -$34.3 bil	Widening to -$36.4 billion.
January Nonfarm Employment Range: 105,000 to 236,000 jobs Median: 185,000 jobs	Friday, 2/7	Dec = +74,000	Up by 202,000 jobs with private sector payrolls up by 208,000 and government payrolls down by 6,000. Like December, harsh winter weather may muddle the data, and the January release will incorporate the annual benchmark revisions, all of which leaves us with not too much conviction as to our headline call. We do, however, remain firm in our call for there to be more meaningful improvement in the labor market as we move through 2014.
January Manufacturing Employment Range: 5,000 to 15,000 jobs Median: 10,000 jobs	Friday, 2/7	Dec = +9,000	Up by 12,000 jobs.
January Average Weekly Hours Range: 34.4 to 34.6 hours Median: 34.4 hours	Friday, 2/7	Dec = 34.4 hrs	Up to 34.5 hours.
January Average Hourly Earnings Range: 0.1 to 0.3 percent Median: 0.2 percent	Friday, 2/7	Dec = +0.1%	Up by 0.2 percent which, along with our expectations for private sector job gains and hours worked yields a 0.6 percent increase in aggregate private sector earnings. This translates into an over-the-year increase of 4.1 percent.
January Unemployment Rate Range: 6.5 to 6.9 percent Median: 6.7 percent	Friday, 2/7	Dec = 6.7%	Down to 6.5 percent. Instead of falling under the heading "meaningful improvement" our anticipated decline reflects the fallout from the expiration of extended Unemployment Insurance benefits as some portion of those whose benefits expired will have exited the labor force. As state level benefits run off over the course of 2014 this will serve as a source of steady downward pressure on the jobless rate and contribute to a communications headache for the Fed.

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