ECONOMIC PREVIEW

REGIONS

Week of May 5, 2014

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on June 17-18)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	In all honesty, the April employment was somewhat of a relief, coming as it did on the heels of a miserable print on Q1 real GDP "growth" – an annualized rate of 0.1 percent, hence the quotation marks – that had to make even the most bullish of bulls question their beliefs. Sure, it is not our job to be bullish or bearish, but we have been in the camp arguing a weak Q1 would primarily reflect weather related distortions that would be reversed during Q2. But, when we thought "weak" Q1, we were thinking sub-2.0 percent growth, not no growth at all. The recent prints on the higher frequency data have been consistent with a stepped-up pace of growth in Q2, and the April employment report provides enough support for that view so as to make the Q1 GDP data look like the outlier. The April employment report also managed to bring some comic relief, in the form of the "the numbers are all a big lie" crowd, some of whom dusted off their old stand-by – the "birth-death" model employed by the BLS to account for firms coming into/going out of existence since the latest benchmark revisions – as a means of downplaying today's data. Have not heard that one for a while. Sure, one could actually go to the BLS web site and examine the data and see that of the various sources of error in the monthly employment reports, the birth-death model is trivial, but that would take the fun out of taking to the airwaves and screaming about the vast government conspiracy to hide the ugly truth about the economic data. What we do not get is, if there is indeed such a conspiracy, then why doesn't it apply to all of the economic data – why put out such an ugly report on Q1 GDP growth, for instance. Oh well, if we're not smart enough to understand the conspiracy, we're certainly not smart enough to understand the nuances of the conspiracy. Whatever. Of course, the relevant question is what the April employment report means to the FOMC. Aside from a sense of relief from no longer being tethered, no matter how loosely, to a threshold unemployment rate of 6.5 percent with April's rate coming in at 6.3 percent, the answer would most likely be "not a lot." That average hourly earnings did not budge despite significant and broad based job growth is testament to what remains an elevated degree of labor market slack – April's drop in the unemployment rate was due to an unusually large decline in the labor force. On the whole, the April employment report is consistent with the theme that while the labor market continues to heal, there is ample room for further improvement in the months ahead. That is where, collectively, the FOMC has been for some time and where they remain.
March Trade Balance Range: -\$42.5 to -\$37.5 billion Median: -\$40.5 billion	Tuesday, 5/6	Feb = -\$42.3 bil	<u>Narrowing</u> to -\$39.9 billion as exports, which have been wildly uneven of late, rebound from February's decline. With April marking the 17th consecutive month in which the new export orders component of the ISM's manufacturing survey indicated growth, exports will continue to rise over the coming months at what should be a somewhat steadier pace.
Q1 Nonfarm Productivity Range: -1.7 to 0.3 percent Median: -0.9 percent SAAR	Wednesday, 5/7	Q4 = +1.8%	<u>Declining</u> at an annualized rate of 1.7 percent. Nonfarm business output rose at an annualized rate of just 0.31 percent in Q1 while aggregate hours worked logged a healthy gain, and the result is a steep decline in measured worker productivity. As with so much of the other Q1 data, however, the productivity data will be distorted by the unusually harsh winter weather, so we would advise not getting too down and out (or, depending on how you react to the economic data, too worked up) over this number. That said, a longer view of the productivity data (we prefer an 8-quarter moving average) shows productivity growth to be anemic, and that is worth watching as what should be faster demand growth over coming quarters will necessitate stepped-up hiring and capital outlays.
Q1 Unit Labor Costs Range: 0.4 to 3.5 percent Median: 2.3 percent SAAR	Wednesday, 5/7	Q4 = -0.1%	<u>Up</u> at an annualized rate of 3.5 percent. Unit labor costs basically measure the labor cost of each unit of output produced, so the flip side of Q1's sharp decline in productivity will be a sizeable increase in unit labor costs. Again, though, there is not much meaningful information to be had from the Q1 data, but the longer-term view shows quiescent unit labor costs despite weakening productivity growth. This is a reflection of meager growth in overall worker compensation, the root cause of which is the high degree of labor market slack so often cited by Fed Chair Yellen as a, if not the, key focal point of monetary policy.

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