ECONOMIC PREVIEW

REGIONS

Week of June 30. 2014

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate *(after the FOMC meeting on July 29-30)* Range: 0.00 to 0.25 percent Median: 0.125 percent (mid-point of target range)		0.00% to 0.25%	If, as anticipated, nonfarm payrolls increased by better than 200,000 jobs in June, it would mark the fifth consecutive month in which job gains topped 200,000, the first such occurrence since September 1999-January 2000. While being armed with this knowledge won't necessarily make you popular at a fourth of July party – trust us, no normal person would want to attend any party at which that particular nugget would be considered interesting – we thought it at least worth mentioning. After all, with so much of the discussion of the labor market focused, and not necessarily wrongly so, on how much remains to be done, it is easy to lose sight of the genuine improvements that have been made, such as what would be over 1 million net new jobs created over the past five months. Okay, back to what remains to be done – the key data points to focus on in the June employment report will be the number of long-term unemployed (2.17 percent of the labor force in May; long-term average 0.85 percent) and the number of those working part-time for economic reasons (4.67 percent of the labor force in May; long-term average 3.61 percent). There is considerable debate over the degree to which these two groups are mitigating upward pressure on wages even as job growth has firmed. Our view is the latter group is at present a more significant factor than the former group, though many inside the Fed argue the long-term unemployed act as a drag on wage growth. The answer will become more clear over coming months if job growth accelerates further, as we and many other analysts expect will be the case, and the most telling indicator of just how tight, or not, the labor market is becoming will be growth in hourly earnings. For now, though, there is still sufficient slack in the labor market that growth in hourly earnings remains somewhat range bound (see below).
June ISM Manufacturing Index Range: 54.5 to 56.7 percent Median: 55.8 percent	Tuesday, 7/1	May = 55.4%	Up to 55.8 percent with the components for new orders and current production pushing the overall index slightly higher. With inflation at least back in the discussion of late, the prices paid component will merit particular attention.
May Construction Spending Range: 0.1 to 1.0 percent Median: 0.5 percent	Tuesday, 7/1	Apr = +0.2%	Up by 0.6 percent, but we will note the May release incorporates the annual benchmark revisions to the construction spending data, thus adding a greater degree of uncertainty to any forecast for the May number.
May Factory Orders Range: -0.6 to 1.0 percent Median: -0.2 percent	Wednesday, 7/2	Apr = +0.7%	Down by 0.6 percent. Orders for durable goods orders fell by 1.0 percent, and we look for a smaller decline in orders for nondurable goods. As always, though, the key number to watch is orders for core capital goods, which rose in May.
May Trade Balance Range: -$46.0 to -$42.5 billion Median: -$45.0 billion	Thursday, 7/3	Apr = -$47.2 bil	Narrowing to -$44.6 billion, as we look for some bounce back in exports while imports give back some of the hefty gains posted in March and April.
June Nonfarm Employment Range: 145,000 to 250,000 jobs Median: 210,000 jobs	Thursday, 7/3	May = +217,000	We look for total nonfarm payrolls to be up by 227,000 jobs, with continued broad based hiring pushing private sector payrolls up by 222,000 jobs. We also look for government sector payrolls to increase by 5,000 jobs.
June Manufacturing Employment Range: 5,000 to 15,000 jobs Median: 10,000 jobs	Thursday, 7/3	May = +10,000	Up by 9,000 jobs with a larger gain in jobs across durable goods industries being partially offset by further job losses in the nondurable goods industries.
June Average Weekly Hours Range: 34.5 to 34.6 hours Median: 34.5 hours	Thursday, 7/3	May = 34.5 hrs	Unchanged at 34.5 hours, which would mark the fourth consecutive month the workweek has held here. It figures that in the not too distant future the length of the workweek will bump up one-tenth of an hour and this seemingly small change would have a profound impact on aggregate hours and earnings.
June Average Hourly Earnings Range: 0.1 to 0.3 percent Median: 0.2 percent	Thursday, 7/3	May = +0.2%	Up by 0.2 percent which along with our calls on employment and hours worked yields a 0.4 percent increase in aggregate private sector earnings, for a year-over-year increase of 4.0 percent.
June Unemployment Rate Range: 6.2 to 6.4 percent Median: 6.3 percent	Thursday, 7/3	May = 6.3%	Unchanged at 6.3 percent. Absent an outsized increase in household employment, any growth in the labor force will make it hard to get the unemployment rate lower. One source of labor force growth will be the annual influx of students in search of summer jobs, the questions here are how large that influx will be and whether or not the seasonal adjustment factors will adequately compensate for it, given the distortions in these inflows seen during and after the 2007-09 recession.

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