ECONOMIC PREVIEW

REGIONS

Week of July 7, 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)

Last Actual: 0.00% to 0.25%

The June employment report exceeded expectations, with total nonfarm employment rising by 288,000 jobs, prior estimates for April and May being revised up by a net 29,000 jobs, and the unemployment rate falling to 6.1 percent. Even discounting the reported gain in local government employment (job counts were artificially boosted by seasonal adjustment issues and a later than normal end to the school year in many parts of the U.S.), job growth was solid in June. More significantly, the pace of job growth has accelerated over recent months, with job growth above 200,000 each month over the past five months. A check of the raw (i.e., not seasonally adjusted) data shows over the past 12 months the economy has added 2.566 million jobs, the best performance since the 12 months ending with March 2006. Moreover, job growth continues to be broader based across private sector industries than at any time since the late 1990s. While acknowledging there remains room for improvement, it is perhaps time to focus more on the growing strength of the labor market.

Still, while no doubt getting their attention, the June employment report will not likely be a game changer for the FOMC. Many FOMC members, starting with Chairwoman Yellen, will focus on what remains sluggish growth in hourly earnings and what was in June a jump in the number of people working part-time for economic reasons as evidence of a still elevated degree of labor market slack. While we continue to maintain the FOMC is willing to "let it ride" until there are signs of meaningful and sustained growth in hourly earnings, we're not so sure the financial markets will be so patient.

The week ahead is largely data free, but Tuesday will see the release of the May Job Openings and Labor Turnover Survey (a/k/a JOLTS). While Fed Chair Yellen's keen interest in the JOLTS has made it fashionable, if not required, reading of late, this is a survey we've followed for years. Though taking a back seat to the more timely monthly employment report the JOLTS data nonetheless contain a great deal of detail on the underlying dynamics of the labor market. For instance, the change in nonfarm employment reported each month is a net change, i.e., hirings net of layoffs and other separations, and the JOLTS data fill in the blanks. From this survey we know the rate at which firms are laying off workers has been below the average rate that prevailed prior to the Great Recession while the number of job openings is on par with pre-recession levels. What remains lacking is the hire rate, i.e., the rate at which firms are adding new workers which, despite the rising number of openings, has yet to approach pre-recession norms. In addition to updates on these metrics, we will also get an update on the "quits rate," i.e., the rate at which workers voluntarily leave their jobs, one metric Dr. Yellen frequently points to as an indicator of the health of the labor market and which remains well below its pre-recession norm. The JOLTS data also provide industry level details that help backfill the industry data found in the monthly employment reports. So, while it may be a quiet week for economic data, there is plenty in the JOLTS report to keep you occupied.

If that isn't enough, Wednesday will bring the release of the minutes from the June FOMC meeting, and we will not be surprised if the minutes have a more hawkish tone than Dr. Yellen has sounded in her public comments. The minutes could also contain clues as to the extent to which the Committee is considering various sequences of steps in the normalization of monetary policy and changes to forward guidance around the path of the Fed funds rate. So, even in the absence of top-tier data releases, the week won't be a total loss.

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