ECONOMIC PREVIEW

REGIONS

Week of May 4, 2015

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on June 16-17):* Target Range Midpoint: 0.125 to 0.125 percent Median Target Range Midpoint: 0.125 percent		0.125%	This week's report on labor productivity and costs will be an unseemly but fitting end to the data for what we've termed another Q1 to forget. With the release of the April employment report, we'll have a better sense of whether we can actually put Q1 behind us as it was mostly transitory factors that held down Q1 growth, or whether there are more fundamental and lasting concerns. Our view is the former.
March Factory Orders Range: 1.4 to 3.1 percent Median: 2.0 percent	Monday, 5/4	Feb = +0.2%	Up by 2.3 percent thanks to a sharp increase in orders for durable goods, while orders for nondurable goods will post a smaller gain. Still, despite the increase in the headline number, the underlying detail on orders for core capital goods will be of more interest. Cuts in energy related equipment and materials have weighed on core capital goods orders of late, making it difficult to discern the underlying trends in broader capital spending.
March Trade Balance Range: -\$45.0 to -\$37.1 billion Median: -\$41.0 billion	Tuesday, 5/5	Feb = -\$35.4 bil	Widening to -\$39.6 billion, though we have little conviction in this call. A large uncertainty looming over the March trade data is the extent to which export and import volumes, which fell dramatically in January and February, will recover in the aftermath of the West Coast port strike. We've penciled in large gains in both exports and imports of goods but it will remain to be seen the extent to which the shipping backlogs were cleared in March. Given the size of the backlog it will take more than one month for the damage done by the strike to be undone so the trade data will remain noisy over the near term.
Q1 Nonfarm Productivity Range: -3.3 to -1.0 percent Median: -1.7 percent SAAR	Wednesday, 5/6	Q4 = -2.2%	Down at an annualized rate of 1.9 percent. In the spirit of another Q1 to forget, output in the nonfarm business sector contracted at an annualized rate of 0.2 percent in Q1. Aggregate private sector hours worked grew at a significantly slower rate in Q1 than was the case in Q4 2014, which will mitigate the decline in worker productivity in Q1. We routinely note the productivity data are quite volatile on a quarter-to-quarter basis and our preferred view of the data is on an 8-quarter moving average basis. Should our call on Q1 be on or near the mark, the longer-run trend rate of productivity growth will have slipped to 0.7 percent, which has problematic implications for wage growth, profit margins, and the economy's noninflationary "speed limit."
Q1 Unit Labor Costs Range: -0.5 to 5.5 percent Median: 4.1 percent SAAR	Wednesday, 5/6	Q4 = 4.1%	Up at an annualized rate of 4.3 percent. To a large extent unit labor costs, which measure the labor costs of producing each unit of output, are the mirror of productivity growth, and this would be the second consecutive quarter in which growth (annualized) unit labor costs topped 4.0 percent, hence the above reference to problematic implications for profit margins. Still, the longer-term trend rate of growth in unit labor costs remains well below 2.0 percent.
April Nonfarm Employment Range: 155,000 to 281,000 jobs Median: 225,000 jobs	Friday, 5/8	Mar = +295,000	Up by 264,000 jobs with private payrolls up by 252,000 jobs and government payrolls up by 12,000 jobs. We look for almost of the job gains to have come from the service producing industries, as further job losses in mining/natural resources and flattish factory payrolls largely negate a gain in construction jobs. This mix, if we are correct, will have adverse implications for hours worked and growth in hourly earnings, as noted below. The other thing to watch here is the size of the revision to the March number – the response rate to the establishment survey was notably low in March, leaving room for a potentially large revision.
April Manufacturing Employment Range: 0 to 10,000 jobs Median: 5,000 jobs	Friday, 5/8	Mar = +8,000	Up by 4,000 jobs.
April Average Weekly Hours Range: 34.5 to 34.6 hours Median: 34.5 hours	Friday, 5/8	Mar = 34.5 hrs	Unchanged at 34.5 hours. If we are correct that the services producing industries drove April's job growth this will weigh on average hours given the average workweek in construction, manufacturing, and natural resources is significantly longer than those in the services sector.
April Average Hourly Earnings Range: 0.1 to 0.3 percent Median: 0.2 percent	Friday, 5/8	Mar = +0.3%	Up by just 0.1 percent coming off a larger increase in March. Combined with our calls on job gains and hours worked, this would result in a 0.4 percent increase in aggregate private sector wage and salary earnings (up 4.9 percent year-on-year).
April Unemployment Rate Range: 5.3 to 5.5 percent Median: 5.4 percent	Friday, 5/8	Mar = 5.5%	Down to 5.3 percent. Household employment should post a decent gain, but we think the insured unemployment rate falling from 1.8 percent to 1.7 percent between the March and April survey weeks implies a larger decline in the headline unemployment rate than the consensus estimate calls for.

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