ECONOMIC PREVIEW

REGIONS

Week of September 7, 2015

Indicator/Action Economics Survey:		Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the FOMC meeting on September 16-17):* Target Range Midpoint: 0.125 to 0.375 percent Median Target Range Midpoint: 0.375 percent		0.125%	The August employment is a perfect illustration of why we always stress the significance of looking at the details beneath the headline numbers. Going into the report no one really knew quite what to expect given the quirky nature of the August report. Over the past six years the average revision to the August change in nonfarm employment between the initial print and the third estimate is a positive 74,000 jobs. As the response rate to the August establishment survey was a paltry 69.9 percent, there figures to be a sizeable upward revision to this year's initial print, though the third estimate won't be out until November. This would leave job growth in August over 200,000, in line with the established run rate. The unemployment rate fell to 5.1 percent, average hourly earnings rose 0.3 percent, and the length of the average workweek ticked up one-tenth of an hour. So, what's not to like? Well, as it turns out, plenty. For openers, job growth was entirely accounted for by the service providing industries, as payrolls in the goods producing industries fell thanks to declines in energy and manufacturing. Within manufacturing, the hiring diffusion index shows just 41.3 percent of firms in the factory sector added jobs in August, the smallest share since late 2010 when the economy was just beginning to emerge from the 2007-09 recession. Clearly, the combination of a stronger U.S. dollar and a weaker global growth environment is pressuring domestic manufacturing – with the auto industry the notable outlier – which is likely to remain the case over coming months. Contracting payrolls in the goods producing industries make the reported increase in the length of the workweek highly suspect – July's workweek was initially reported to have risen only to be revised lower and we expect the same to be the case for August. This is more significant than it may seem, as each one-tenth of an hour change in the average workweek is equivalent to over 300,000 jobs in terms of the economy's productive capacity, and this also has a significant impact on growth in aggregate labor earnings. The drop in the unemployment rate was due in part to a decline in the labor force, and more significantly even with the cumulative improvement seen in the labor market to date, there are over 16.3 million people who can be characterized as "underutilized labor resources" – or, over 3 million more than would be the case in a fully healthy labor market. And, a calendar quirk is at least partly behind the 0.3 percent increase in average hourly earnings, but even aside from that hourly earnings are up only 2.2 percent year-on-year. In our view, it will not be until the latter stages of 2016 when labor market slack has been sufficiently pared down so that earnings growth breaks out of the mundane range within which it has been confined over the past four years. When taken as a whole, the August employment report is consistent with the notion that the labor market is improving – on an annual basis, nonfarm payrolls are rising at just under a 3-million job rate – but there nonetheless remains much further to go – as evidenced by the elevated number of significantly underutilized labor resources. And, clearly, non-auto manufacturing and energy remain ongoing concerns. The reality is the August employment report did not give the FOMC a reason to raise the Fed funds rate later this month, but perhaps the more significant question is whether it offered any reason for them not to do so. A light data calendar in a holiday shortened week won't shed any additional light on that.
August PPI – Final Demand Range: -0.3 to 0.1 percent Median: -0.1 percent	Friday, 9/11	Jul = +0.2%	Down by 0.3 percent, which yields a year-over-year decline of 1.1 percent.
August Core PPI – Final Demand Range: 0.0 to 0.2 percent Median: 0.1 percent	Friday, 9/11	Jul = +0.3%	Up by 0.1 percent, for an over-the-year increase of 0.7 percent.

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