# ECONOMIC PREVIEW

REGIONS

Week of October 5, 2015

| Indicator/Action Economics Survey: | | Last Actual: | Regions' View: |
|---|---|---|---|
| **Fed Funds Rate: Target Range Midpoint** *(After the FOMC meeting on October 27-28):* Target Range Midpoint: 0.125 to 0.375 percent Median Target Range Midpoint: 0.125 percent | | 0.125% | The September employment report was full of surprises, none of which were good surprises. Total nonfarm payrolls rose by just 142,000 jobs in September, well below expectations of a gain closer to 200,000 jobs. The bigger surprise, however, was the downward revision to the initial estimate for August (with prior estimates for July also revised lower). Based on historical patterns showing sizeable upward revisions to the initial August print are the norm, expectations were for that to be the case this year as well, but instead there was a sizeable downward revision. The only two positive data points we see are the declines in the number of long-term unemployed and those working part-time for economic reasons, though both metrics remain at levels well above those consistent with a fully healthy labor market.<br><br>The September employment report is somewhat puzzling in the context of data showing steady growth in private domestic demand. Additionally, job openings are at a record high while initial claims for Unemployment Insurance continue to hover around 15-year lows. This is worth noting in light of the September employment report. Recall the headline employment number is the net change in nonfarm payrolls, so the smaller net increase in payrolls did not come about due to increased layoffs but instead due to diminished hiring. This could be a function of what since mid-August has been heightened volatility in the financial markets and growing concern over the global growth outlook. As such, weaker hiring in September could reflect firms taking a pause amidst a backdrop of greater uncertainty and volatility in the financial markets. This is by no means us dismissing the September employment report as unworthy of concern and we certainly do not downplay the downside risks to our outlook. But, by the same token, we think it a bit early to conclude the fundamental track of the domestic economy has changed.<br><br>The FOMC no doubt has contributed to growing uncertainty in the financial markets, particularly with the tone of Fed Chair Yellen's press conference following the September FOMC meeting. This week brings the release of the minutes from that meeting (Thursday, 2:00EST) and it will be interesting to see if the minutes shed any new light on how FOMC members factored global concerns into their decision to not raise the Fed funds rate. While October is all but off the table as to the timing of the initial hike in the Fed funds rate, we think it a bit too soon to rule out December, even though that looks less likely in the wake of the disappointing September employment report. |
| **September ISM Non-Mfg. Index** Range: 56.0 to 59.5 percent Median: 57.8 percent | Monday, 10/5 | Aug = 59.0% | Down to 57.8 percent. |
| **August Trade Balance** Range: -$50.2 to -$39.3 billion Median: -$43.0 billion | Tuesday, 10/6 | Jul = -$41.9 bil | Widening sharply to -$48.8 billion. The preliminary data show a significant widening in the goods deficit due to a sharp decline in exports in almost all categories while imports rose. The overriding issue here is that a weak global growth environment, one symptom of which is a stronger U.S. dollar, is taking a toll on U.S. exports. Part of the decline in exports is price related (petroleum & petroleum products) so the deterioration in the real trade balance, which is what counts for real GDP, won't be as severe as in the nominal trade balance. One additional factor that could cushion the blow to Q3 real GDP growth is some portion of August's imports will be diverted to inventories as retailers begin to stock up for the holiday sales season (which of course began last December 26). All in all, though, we look for trade to be a drag on Q3 real GDP growth and the August trade data will go far towards helping us quantify the degree to which this will be the case. |

**Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203**
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com