ECONOMIC PREVIEW

REGIONS

Week of July 28, 2025

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 29-30 FOMC meeting):* Target Range Mid-point: 4.375 to 4.375 percent Median Target Range Mid-point: 4.375 percent	Range: 4.25% to 4.50% Midpoint: 4.375%	All this AND an FOMC meeting too? Why, it's like this week is the economic data equivalent of the *Hallmark Channel's* "Christmas in July" event even if, unfortunately, happy outcomes are far from guaranteed in the rough and tumble world of economic data. Still, once this week's full slate of data releases is fully unpacked, we think it will more likely affirm, rather than alter, our sense of underlying conditions in the U.S. economy. As for the FOMC meeting, while there is not enough support within the Committee for a Fed funds rate cut, we do expect dissenting votes from Governors Bowman and Waller, which would be the first time since 1993 that two Fed Governors dissented on the same vote. Of more interest will be the message Chair Powell sends in his post-meeting press conference and whether, symbolically, he shows up to that press conference wearing his hard hat. Market participants will be listening for any hints of the door being left open for a funds rate cut at the FOMC's September meeting, and Chair Powell's comments around the risks of additional tariff pass-through will no doubt be a focus. We expect Chair Powell will continue to stress that the Committee remains data dependent, with the incoming data shaping the path of policy decisions. All in all, by the end of this week not everyone will have gotten everything they wanted which, if you think about it, is much like Christmas, in July or any other month.
June Advance Trade Balance: Goods Tuesday, 7/29 Range: -\$130.0 to -\$91.9 billion Median: -\$98.0 billion	May = -\$96.4 billion	Widening to -\$106.4 billion. The monthly trade data remain somewhat volatile, reacting – with lags – to what have been sharp and sudden swings in announced trade policy. After having posted the largest monthly decline on record in April and being flat in May, we look for imports to have jumped in June. U.S. firms took advantage of what over prior weeks had been easing trade tensions, including with China. This includes retailers rushing to place orders for holiday season merchandise several weeks earlier than they typically would, which we think will result in a wider deficit in the goods account despite a bounce in exports after a sharp decline in May. Even if we're correct on this point, the overall trade deficit will have been much narrower in Q2 than was the case in Q1, meaning net exports will have been a powerful support for Q2 real GDP growth (see below) after having been a powerful drag in Q1.
July Consumer Confidence Tuesday, 7/29 Range: 91.0 to 100.0 Median: 96.0	Jun = 93.0	Up to 96.6, still low in absolute terms but nonetheless reflecting some easing in anxiety over the state of the labor market and the broader economy thanks to a dip in the unemployment rate, further declines in gas prices, and rising stock prices. While the headline index has been bouncing within a notably low range, consumers' assessments of labor market conditions, which we see as the more important driver of spending/saving decisions, have held up somewhat better. That said, the share of consumers seeing jobs as "hard to get" has crept up, which is not surprising given the slowing pace of job growth, while the share expecting income to be higher six months hence has edged lower. Neither measure would suggest consumers going into retreat, but they are consistent with what has been softening demand for discretionary spending, particularly on the services side. So, as always, the first place we'll go in the July survey data will be consumers' assessments of labor market conditions.
Q2 Real GDP – 1st estimate Wednesday, 7/30 Range: 1.0 to 4.5 percent Median: 2.4 percent SAAR	Q1 = -0.5% SAAR	Up at an annualized rate of 3.3 percent, with the Q2 data largely showing the reverse of what we saw in the Q1 data. To that point, recall that while real GDP contracted in Q1 real private domestic demand – combined business and household spending – rose at an annual rate of 1.9 percent, with both revised down between the BEA's first and third estimates. We expect the script to be flipped in the Q2 data, with real private domestic demand registering but a modest advance and badly lagging top-line real GDP growth. Net exports were a powerful drag on growth in Q1, knocking 4.6 percentage points off the quarterly change in real GDP as imports of goods rose at an annual rate of 51.6 percent. That increase, however, was largely driven by import orders being pulled ahead in anticipation of higher tariffs. A considerable portion of those imports went straight into business inventories which, in terms of the GDP math, countered some of the drag from the surge in imports. That import volumes dropped so significantly in Q2 will make a significant contribution to top-line real GDP growth, perhaps more than 4.0 percentage points (note that the BEA will not have the final June data and will plug their own estimate into their first estimate of **CONTINUED ON PAGE 2:**

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

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Q2 Real GDP – 1st estimate Wednesday, 7/30 Range: 1.0 to 4.5 percent Median: 2.4 percent SAAR	Q1 = -0.5% SAAR	**CONTINUED FROM PAGE 1:** Q2 GDP, injecting some uncertainty into forecasts of real GDP growth). At the same time, the build in business inventories will be meaningfully smaller than was the case in Q1, blunting the impact of a smaller trade deficit on top-line real GDP growth. As for real private domestic demand, we look for real consumer spending to have grown at an annual rate of 1.5 percent. This is, however, a bit misleading as it more reflects strong spending in March setting a high base for Q2 growth as the monthly spending numbers during Q2 were somewhat middling. Keep in mind, however, that consumers too acted to preempt higher tariffs, having pulled purchases of consumer durable goods forward, and we're still seeing some of the payback for that in the data. We'll be more interested in the GDP data on services spending which, though not to the extent seen in the Q1 data, will be weak in the Q2 data as the softness in discretionary services spending we've been pointing to for months persisted through Q2. After having surged in Q1 – annualized growth of 23.7 percent – real business investment in equipment and machinery will be a drag on top-line real GDP growth in the Q2 data, but with shipments of core capital goods having surprised to the upside in June, that drag may not be as strong as we'd anticipated. We didn't think the Q1 GDP data said as much about the underlying health of the U.S. economy as it did about consumers and businesses acting in anticipation of higher tariffs. By the same token, we think the Q2 GDP data will say more about the reversal of those actions than it will about the underlying health of the U.S. economy. At present, we don't expect much from either real GDP or real private domestic demand in Q3, but as we get through the end of 2025 and into 2026, we think both will be back on a path toward what we see as the longer-term trend rates of growth.
Q2 GDP Price Index – 1st estimate Wednesday, 7/30 Range: 1.0 to 2.8 percent Median: 2.2 percent SAAR	Q1 = +3.8% SAAR	Up at an annualized rate of 2.2 percent.
Q2 Employment Cost Index Thursday, 7/31 Range: 0.2 to 0.9 percent Median: 0.8 percent	Q1 = +0.9%	Up by 0.8 percent, with the wages component up by 0.7 percent and the benefits component up by 1.1 percent. On a year-on-year basis, our forecast would leave the total ECI up by 3.5 percent with the wages component up by 3.2 percent and the benefits component up by 4.1 percent. Leaving aside the distortions seen in the data for 2020, our forecast would yield the smallest quarterly increase in the wages component since Q4 2019, in line with other measures showing decelerating growth in wages. Regardless of whether our forecast is on the mark or off base, wage growth will almost surely dominate the discussions of the ECI data, meaning that what has been accelerating growth in benefit costs, particularly for health insurance premiums, will continue to be largely unnoticed. To be sure, wages represent a much larger share of total labor comp costs than do benefits, but it is possible that if growth in benefit costs continues to accelerate, firms may at some point "substitute" higher benefit payments for wage increases in terms of changes in total compensation, resulting in a more marked slowdown in wage growth than would otherwise be the case. Some have argued that this set of conditions prevailed in the early 2000s, and while we're not arguing that we're on the verge of seeing that repeated, we do think rapidly rising benefit costs merit more attention than they've thus far gotten.
June Personal Income Thursday, 7/31 Range: 0.0 to 0.5 percent Median: 0.2 percent	May = -0.4%	Up by 0.4 percent. Whether our forecast or the consensus forecast will be closer to the mark largely rides on growth in private sector wage and salary earnings. Recall that the June employment report showed a decline in average weekly hours worked, which acted as a strong drag on growth in aggregate wage and salary earnings as constructed from the details of the employment report. If that translates into the BEA's measure of private sector wage and salary earnings, our forecast for growth in total personal income will be too high. Why we think that may not be the case is that the reported decline in average weekly hours was nothing more than harsh seasonal adjustment, as the not seasonally adjusted data show a much larger increase in average weekly hours, and in turn aggregate private sector hours worked, than is typically seen in the month of June. Why this year's June seasonal adjustment was **CONTINUED ON PAGE 3:**

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June Personal Income Thursday, 7/31 Range: 0.0 to 0.5 percent Median: 0.2 percent	May = -0.4%	**CONTINUED FROM PAGE 2:** so harsh remains an open question, but it is the unadjusted data that translate into actual private sector wage and salary earnings. This is yet another illustration of why we caution against just taking the seasonally adjusted data at face value. Either way, another wild card in the June data will be transfer payments; recall that retroactive payments made under the Social Security Fairness Act bolstered transfer payments in March and April but washed out of the data in May. As such, our forecast looks for a more "normal" print on transfer payments in the June data, but if Social Security payouts run down further, our forecast will be too high. We also anticipate nonfarm proprietors' income, a proxy for small business profits, bouncing back from May's decline and expect rental income to follow suit. Even if our forecast of private sector wage and salary earnings proves too high, they continue to grow at a rate easily ahead of inflation, providing a key support for consumer spending.
June Personal Spending Thursday, 7/31 Range: 0.1 to 0.6 percent Median: 0.4 percent	May = -0.1%	Up by 0.5 percent. The June retail sales data point to a healthy advance in spending on goods, aided by higher goods prices and by favorable seasonal adjustment. The one glimpse of services spending offered in the retail sales data is dining out, and while the BEA uses a separate source for its estimate of restaurant spending, the two series tend to move together. This, along with higher utilities outlays, should set the stage for a decent increase in services spending even if other types of discretionary services spending underperform restaurants, as we anticipate will be the case.
June PCE Deflator Thursday, 7/31 Range: 0.2 to 0.3 percent Median: 0.3 percent	May = +0.1%	Up by 0.3 percent, yielding a year-on-year increase of 2.5 percent. We look for the core PCE Deflator to also be up by 0.3 percent, yielding a year-on-year increase of 2.8 percent.
July ISM Manufacturing Index Friday, 8/1 Range: 48.2 to 52.0 percent Median: 49.5 percent	Jun = 49.0%	Up to 50.2 percent. Even if the ISM's headline index does peak over the 50.0 percent line between contraction and expansion as our forecast anticipates, we're not sure we'd make too much of it. The reality is that the headline index has bounced within a fairly narrow range for some time now, going back well before tariffs dominated the economic landscape, not to mention the narratives spun around the economic landscape. Though the regional Fed surveys point to some improvement in July, including in new orders, we don't think that much will have changed in terms of overall conditions in the factory sector. It is possible that increasing clarity on the trade policy front, regardless of how firms feel about the specifics, along with more favorable tax treatment of capital expenditures could translate into more tangible improvement in the months ahead. Comments from respondents to the July survey could shed some light on whether this is a realistic assessment.
June Construction Spending Friday, 8/1 Range: -0.7 to 0.5 percent Median: 0.0 percent	May = -0.3%	Down by 0.4 percent.
July Nonfarm Employment Friday, 8/1 Range: 0 to 170,000 jobs Median: 110,000 jobs	Jun = +147,000 jobs	Up by 82,000 jobs, with private sector payrolls up by 106,000 jobs and public sector payrolls down by 24,000 jobs. The June employment report was riddled with noise, reflecting both a low collection rate to the BLS's establishment survey and seasonal adjustment noise, particularly around the education segment of state and local governments. We're not so sure the July employment report will be any less noisy. With a later end to the school year, the decline in not seasonally adjusted education payrolls amongst state and local governments (-542,400 jobs) was smaller than is typically seen in the month of June. As a result, seasonal adjustment basically overcompensated, yielding a gain of 63,500 jobs on a seasonally adjusted basis. Our forecast anticipates payback in July, which should see a larger than normal decline in this segment on a not seasonally adjusted basis that seasonal adjustment will not fully compensate for. We could be wrong on this point, and the payback may not come until the August data. While this would mean our forecasts of public sector and total nonfarm job growth would be too low, it would also be absolutely irrelevant, as is always the case with seasonal adjustment noise. At the same time, we expect there to have been additional job losses in the federal government sector. **CONTINUED ON PAGE 4:**

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July Nonfarm Employment Friday, 8/1 Range: 0 to 170,000 jobs Median: 110,000 jobs	Jun = +147,000 jobs	**CONTINUED FROM PAGE 3:** As for private sector payrolls, an early end to the July survey period poses a headwind right out of the gate; early ends typically weigh on survey collection rates and can easily bias estimates of job growth and average hourly earnings lower. If so, then smaller than normal July increases in payrolls in industries such as construction and leisure and hospitality services on a not seasonally adjusted basis will translate into only modest increases, at best, in the seasonally adjusted data. We'd already been bracing for weaker hiring in these and other industry groups, such as transportation and warehousing services and retail trade, on a not seasonally adjusted basis holding down seasonally adjusted July job growth, but any such calendar effects would only amplify the effects of unfavorable seasonal adjustment. Noise in the data notwithstanding, the trend rate of job growth has clearly slowed, and the big question is why that is the case. While higher tariffs and uncertainty around future trade policy moves have become the default explanations for pretty much anything and everything, from listless business investment to slowing job growth to the staggering offensive ineptness of the Pittsburgh Pirates, we'd argue that the effects of immigration reform are the bigger drag on job growth. While we cannot directly quantify any such effects from the establishment survey data, we do know from the household survey that the foreign born labor force contracted by more than 1.1 million persons during this year's second quarter. This is something we began pointing to in late-2024, particularly given that notably rapid inflows of foreign born labor had been the main catalyst of the strong growth in labor supply that facilitated faster job growth over the 2022-2024 period. To be sure, at some point the decline in the foreign born labor force will abate, but that still leaves a significant gap in the supply of labor which, in turn, will continue to weigh on job growth. This is a far more fundamental issue than how much seasonal adjustment noise there is in the data in any given month, and one which has implications for growth and inflation.
July Manufacturing Employment Friday, 8/1 Range: -10,000 to 5,000 jobs Median: 0 jobs	Jun = -7,000 jobs	Up by 3,000 jobs.
July Average Weekly Hours Friday, 8/1 Range: 34.2 to 34.3 hours Median: 34.2 hours	Jun = 34.2 hours	Up to 34.3 hours. As noted in our comments on June personal income growth, the reported decline in average weekly hours in June was nothing more than seasonal adjustment noise, and we would not be surprised to see that original print revised higher. Either way, we look for average weekly hours at 34.3 hours in the July data.
July Average Hourly Earnings Friday, 8/1 Range: 0.2 to 0.4 percent Median: 0.3 percent	Jun = +0.2%	Up by 0.3 percent, for a year-on-year increase of 3.8 percent. Our calls on job growth, hours worked, and hourly earnings would leave aggregate private sector wage and salary earnings up 0.7 percent in June and up 5.3 percent year-on-year. But, if we're wrong in expecting average weekly hours at 34.3 hours, our forecast of aggregate wage and salary earnings will be too high.
July Unemployment Rate Friday, 8/1 Range: 4.0 to 4.3 percent Median: 4.2 percent	Jun = 4.1%	Up to 4.2 percent. The later end to the school year led to a smaller than normal June inflow of younger adults into the labor force, which was the prime factor behind the dip in the unemployment rate. We look for that to have been reversed in the July data and if we're correct on this point, that should nudge the unemployment rate up.

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