

ECONOMIC UPDATE



REGIONS

July 31, 2025

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Data Summary: Personal Income/Spending; PCE Deflator; Employment Cost Index

Total **personal income** rose by 0.3 percent in June, wedged between the consensus forecast (0.2 percent) and our forecast (0.4 percent). Our miss owes in large part to private sector wage and salary earnings rising by just 0.1 percent, well short of our forecast. As we noted in this week's *Economic Preview*, the reported decline in average weekly hours in June was nothing more than overly aggressive seasonal adjustment, as the not seasonally adjusted data showed a larger increase than is typical for the month of June. This matters as a seemingly small change – one-tenth of an hour either way – will have a powerful effect on the change in total wage and salary earnings. We banked on the unadjusted data having more influence on the BEA's estimate of June personal income, but instead the seasonally adjusted data carried the day. In terms of actual dollars flowing into actual pockets of actual workers, the seasonally adjusted data for June significantly understate the case. Another surprise in the June data was the 1.0 percent increase in transfer payments, a larger increase than our forecast anticipated. Transfer payments have been rather jumpy over the past few months, largely reflecting a similar pattern in Social Security benefits due to retroactive payments made under the *Social Security Fairness Act*. After having risen by 3.7 percent in March and by 6.9 percent in April, Social Security benefits fell by 7.3 percent in May but reversed course in June, rising by 1.9 percent. As Social Security benefits account for just under one-third of total transfer payments, these swings are being felt up the data chain in transfer payments and, in turn, total personal income. At some point, however, monthly Social Security payments will settle back into a more stable pattern. Perhaps of more relevance in the transfer payments category is the recent spike in unemployment insurance benefits, up by 2.1 percent in May and by 2.5 percent in June. This is consistent with the upturn in continuing claims for unemployment insurance, i.e., the count of people actually drawing benefits, which has come despite no corresponding upward trend in initial claims. In other words, while the pace of layoffs has not picked up, those who do lose a job are having increasing difficulty in landing another job.

Total **personal spending** rose by 0.3 percent in June, short of both the consensus forecast (0.4 percent) and our forecast (0.5 percent). Absent the favorable seasonal adjustment seen in the retail sales data, the drop in unit sales of new vehicles weighed on spending as measured by the BEA, with spending on consumer durable goods reported to have been flat in

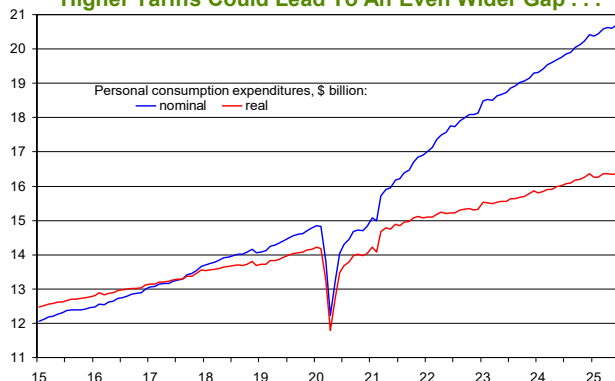
June. Keep in mind, though, that motor vehicle sales are settling back from the surge seen in March and April as consumers acted to avert tariff-related price increases (which haven't actually come yet). It is worth noting that spending on other types of consumer durable goods, such as furniture, appliances, electronics, and household equipment – was strong in June, but this in part reflects higher prices which at least in part reflects tariff pass-through. Services spending was weak in June, with higher outlays on utilities and health care offset by notably weak spending on discretionary services – travel, lodging, recreation. This is reflected in the pricing data, with sizable price declines in June. We have been pointing to softening demand for discretionary services for the past several months, and this is clearly something to watch in the months ahead.

The total **PCE Deflator** and the **core PCE Deflator** each rose by 0.3 percent in June, as we and the consensus expected, translating into year-on-year increases of 2.6 percent and 2.8 percent, respectively. Despite lower prices for new and used motor vehicles, core goods prices rose by 0.4 percent in June with, as noted above, sizable increases amongst consumer durable goods other than motor vehicles. Granted, this leaves core goods prices up just 1.0 percent year-on-year, which reflects how tame goods prices had been. As we've stressed, however, while we do expect goods price inflation to gather pace in the months ahead, we also expect services price disinflation to act as a meaningful counter, as was again the case in June. To the extent we're correct on this point, it could put the FOMC in play sooner than some are anticipating.

The **Employment Cost Index** (ECI) rose by 0.9 percent in Q2, topping the 0.8 percent increase we and the consensus expected, with the wages component up 1.0 percent and the benefits component up 0.7 percent – the former topped our forecast, the latter fell short of our forecast. On an over-the-year basis, the total ECI is up 3.6 percent, as are both the wages and benefits components. Growth in total comp costs has been somewhat stable over the past four quarters, but underneath the hood wage growth has moderated a bit and growth in benefit costs has picked up. We've long argued that growth in labor costs would settle somewhere between the pace seen over 2018-19 and the frenzied post-pandemic pace. It could be that this is what we're now seeing take place, though it is too soon to draw firm conclusions, particularly with a shrinking pool of foreign born labor weighing on overall labor supply growth.



Higher Tariffs Could Lead To An Even Wider Gap . . .



Settling Into A New Normal?

