ECONOMIC PREVIEW

REGIONS

Week of August 4, 2025

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 16-17 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%	The economic data version of the old adage would be quantity does not necessarily mean clarity, and last week was a stark illustration of that. A barrage of economic data raised more questions about the state of the U.S. economy than it answered, and we'd have said that even without the shockingly large downward revision to prior estimates of job growth in May and June incorporated into the July employment report. Recall that coming into this year we and most others expected real GDP to grow at a more trend-like pace in 2025 after having grown at a considerably above-trend pace over the prior two years. At the same time, however, we also expected inflation to remain stubbornly above the FOMC's target rate of 2.0 percent while raising the prospect of an adverse labor supply shock triggered by a sharp and sudden outflow of foreign born labor. Had you totally cut yourself off from civilization, or at least from the flow of economic data and news, at the start of the year and decided to check in at the end of last week, you might think 2025 was playing out pretty much as anticipated at the start of the year: slower GDP growth, a slowing trend rate of job growth amid a sharp outflow of foreign born labor, and persistent inflation pressures. How we got to this point, however, is something none of us had on our radar at the start of the year. The question now, and no small one at that, is whether what we're seeing in the economic data is the slowdown in the pace of activity that had been anticipated simply proving to be less smooth than had anticipated, or whether the economy is genuinely starting to sag under the weight of higher tariffs, shortages of labor, persistent price pressures, and a heighted degree of uncertainty. That many of the economic data series seem to be sending conflicting signals makes answering that question, at least answering it correctly, even more challenging
June Factory Orders Monday, 8/4 Range: -10.2 to -2.4 percent Median: -4.8 percent	May = +8.2%	<u>Down</u> by 4.7 percent. Orders for durable goods were dragged lower by a sharp decline in orders for nondefense aircraft, hence the decline in total orders. Of more relevance, orders for core capital goods continue to struggle to gain traction and remain somewhat rangebound. More favorable tax treatment of capital expenditures and more clarity on trade policy may provide a tailwind in the months ahead.
June Trade Balance Tuesday, 8/5 Range: -\$75.0 to -\$59.5 billion Median: -\$61.3 billion	May = -\$71.5 billion	<u>Narrowing</u> to -\$60.9 billion. The advance data on trade in goods show a sizable decline in imports, with a particularly large decline in imports of consumer goods which reflects further unwinding of the surge seen earlier this year. We won't be surprised to see imports reverse course once again when the July data hit, as many retailers rushed to pull holiday season orders ahead of when they'd typically be placed. Either way, the magnitude of swings in imports should be much less pronounced over the second half of the year than was the case over the first half of the year, meaning net exports will have a smaller impact on real GDP growth.
July ISM Non-Manufacturing Index Tuesday, 8/5 Range: 50.3 to 53.7 percent Median: 51.5 percent	Jun = 50.8%	<u>Down</u> to 50.3 percent.
Q2 Nonfarm Labor Productivity Thursday, 8/7 Range: -0.8 to 2.9 percent Median: 2.0 percent SAAR	Q1 = -1.5% SAAR	<u>Up</u> at an annualized rate of 1.5 percent. Real output in the nonfarm business sector grew at an annual rate of 3.7 percent in Q2, while the proxy based on the monthly employment reports shows aggregate private sector hours worked rose at an annual rate of 1.7 percent. The gap in the data at this point is what the remaining components of aggregate hours worked will look like, which will determine how close to/far from the mark our forecast is. Our forecast would leave the eight-quarter moving average of productivity growth at 2.1 percent, a bit slower than the prior four quarters but nonetheless still handily above the pre-pandemic trend rate of growth. We continue to think that we're still in the early stages of a prolonged period of faster trend productivity growth, which would at least mitigate, if not totally offset, what we think will remain persistent labor supply challenges which will be a headwind for growth and a tailwind for inflation.
Q2 Unit Labor Costs Thursday, 8/7 Range: 0.7 to 4.0 percent Median: 1.5 percent SAAR	Q1 = +6.6% SAAR	<u>Up</u> at an annualized rate of 2.1 percent.

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