ECONOMIC PREVIEW

REGIONS

Week of August 11, 2025

<table>
<tr><th>Indicator/Action
Economics Survey:</th><th>Last
Actual:</th><th>Regions' View:</th></tr>
<tr><td>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</td><td>Range:
4.25% to 4.50%
Midpoint:
4.375%</td><td>The July CPI report won't settle the question of whether, or to what extent, tariff pass-through will push goods prices higher, but, that's kind of the point, i.e., no single month's data will settle that question. We've been consistent in arguing that any such effects would come gradually, with firms having been aggressive in building inventories ahead of higher tariff rates and wanting more clarity on where tariffs would ultimately settle before trying to pass the costs along to their customers. In many industry groups, elevated profit margins allowed firms to take a more measured approach to pricing. Our view has been that as inventories are pared down and firms have more clarity on tariff rates they'd become more apt to raise prices. We think the July CPI report will be more of a step in that direction than a final answer.</td></tr>
<tr><td>July Consumer Price Index Tuesday, 8/12
Range: 0.0 to 0.3 percent
Median: 0.2 percent</td><td>Jun = +0.3%</td><td><u>Up</u> by 0.2 percent, which would translate into a year-on-year increase of 2.8 percent. On a not seasonally adjusted basis, retail gasoline prices fell this July, which is at odds with typical seasonal patterns. As such, this decline will be amplified in the seasonally adjusted data, which we expect to show gasoline prices down by around 2.2 percent, shaving one-tenth of a point off the monthly change in the total CPI. Our forecast anticipates a third straight monthly increase of 0.3 percent in the overall index of food prices. The real stories around the July CPI report, however, will be: 1) whether, or to what extent the data will show further acceleration in core goods price inflation; and 2) the extent to which further core services price disinflation will blunt the impact of faster core goods price inflation. We do think it is a close call on the core CPI showing a 0.2 percent or a 0.3 percent increase. To that point, we think the year-on-year increase will be 3.0 percent either way, which would likely get more attention than the rounded monthly increase.

We can point to a few categories which we think will figure most prominently in the monthly change in the core CPI, starting with apparel prices. Going back to 2000, there is not a single instance of apparel prices rising on a not seasonally adjusted basis in the month of July. While we don't necessarily think that streak was broken this July, we do look for a much smaller decline than is typical for the month, which would lead to a larger increase in apparel prices on a seasonally adjusted basis. While our forecast anticipates another modest decline in prices for new motor vehicles, as thus far manufacturers have absorbed significant increases in costs stemming from higher tariffs, used vehicle prices could go either way. Prices on the wholesale level have posted hefty advances in two of the past three months, and it typically takes some time for changes on the wholesale level to be picked up in the CPI data. So, while our forecast anticipates a further decline in used vehicle prices, albeit smaller than those over the past four months, we cannot rule out the CPI data showing an increase. Either way, we look for the BLS's measure of core goods prices excluding used motor vehicles to post a larger increase than the 0.3 percent increase seen in June, the largest monthly increase since March 2023. While we do not look for repeats of the sizable increases in prices for appliances, electronics, furniture, and toys seen in recent months, we look for more broadly based tariff pass-through than has thus far been the case to fuel further acceleration in core goods price inflation.

On the services side, we do not anticipate as much of a drag from discretionary services prices in the July data as has been the case over the past few months, hence our forecast of the core CPI rounding up to 0.3 percent. For instance, air travel bookings firmed up in July, which will be reflected in the CPI data on air fares. Moreover, seasonal adjustment for air fares will transition from having been a strong drag over the prior three months to being a modest support in July. As for lodging rates, while we look for a further decline in July, thanks in part to what will remain a powerful drag from seasonal adjustment, that decline will be much smaller than the 2.9 percent decline seen in June. This gets us back to a point we've made elsewhere, which is that seasonal adjustment has played a key role in the reported declines in discretionary services prices over recent months, but once we get past the July data, seasonal adjustment will have the opposite effect. As such, services price disinflation could provide less of an offset to further acceleration in goods price inflation if, as we expect, firms become more aggressive in passing along the costs of higher tariffs. We've been consistent in our view of how, and when, the impact of higher tariffs would turn up in the retail level inflation data, and whether the July change in the core CPI prints at 0.2 or 0.3 percent will have no bearing on that.</td></tr>
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Indicator/Action Economics Survey:	Last Actual:	Regions' View:
July Consumer Price Index: Core Tuesday, 8/12 Range: 0.2 to 0.4 percent Median: 0.3 percent	Jun = +0.2%	Up by 0.3 percent, which would yield a year-on-year increase of 3.0 percent.
July Producer Price Index Thursday, 8/14 Range: 0.0 to 0.4 percent Median: 0.2 percent	Jun = 0.0%	Up by 0.3 percent, yielding a 2.6 percent year-on-year increase.
July Producer Price Index: Core Thursday, 8/14 Range: 0.1 to 0.5 percent Median: 0.2 percent	Jun = 0.0%	Up by 0.3 percent, which would translate into a year-on-year increase of 3.0 percent.
July Retail Sales: Total Friday, 8/15 Range: 0.0 to 1.4 percent Median: 0.5 percent	Jun = +0.6%	Up by 1.0 percent. Motor vehicles will be a strong support for top-line retail sales with unit sales of new motor vehicles jumping to an annual rate of 16.4 million units in July, up 7.1 percent from June. The not seasonally adjusted data show June sales were weaker and July sales were stronger than is typical for those months, so to some extent July's jump just evened out the score. Still, taking the monthly average of those two months puts motor vehicle sales on a higher trajectory in Q3 than we had anticipated, even if we do not expect July's sales pace to be sustained. Continued soft pricing for new and used vehicles, however, poses some downside risk to our forecast of growth in revenue at motor vehicle dealers. In contrast, the combination of an atypical July price decline and tough seasonal adjustment means gasoline sales should be a drag on top-line sales. More broadly, however, pricing should be a support for July sales if we're correct in anticipating more broadly based tariff pass-through into core goods prices than has thus far been the case. We'll reassess our forecast of July retail sales once we have the July CPI data in hand. One question looming over the July retail sales data in any given year is whether, or to what extent, the retail sales data will capture Amazon Prime Day(s), and with Amazon's event being four days this year rather than two, that question looms even larger. The retail sales data have a somewhat tempestuous relationship with Amazon Prime Day(s), seeming to embrace it in some years but seeming to ignore it in most years. This could be the retail sales data just failing to capture the full impact, overly aggressive seasonal adjustment in the online sales category, or just one of those things destined not to be. Either way, one curious element of the retail sales data since Amazon Prime Day(s) (and the related promotions by other retailers triggered by Amazon's event) became a thing in 2015 is that the seasonally adjusted data have tended to show a larger increase in online sales in June than in July, which is at odds with what the not seasonally adjusted data show. As we routinely note, given that they account for roughly twenty-nine percent of control retail sales, a miss on a forecast of online sales can easily throw a forecast for control group sales off. As always, we'll look to the not seasonally adjusted data as a better indicator of the strength of spending than the seasonally adjusted data.
July Retail Sales: Ex-Auto Friday, 8/15 Range: -0.1 to 0.8 percent Median: 0.3 percent	Jun = +0.5%	Up by 0.6 percent.
July Retail Sales: Control Group Friday, 8/15 Range: -0.2 to 0.6 percent Median: 0.4 percent	Jun = +0.5%	Up by 0.8 percent though, as noted above, seasonal adjustment to the online sales category poses downside risk to our forecast.
July Industrial Production Friday, 8/15 Range: -0.3 to 0.3 percent Median: 0.0 percent	Jun = +0.3%	Down by 0.2 percent on lower output in the manufacturing and mining sectors to offset higher utilities output.

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July Capacity Utilization Rate Friday, 8/15 Range: 77.3 to 77.8 percent Median: 77.6 percent	Jun = 77.6%	Down to 77.4 percent.
June Business Inventories Friday, 8/15 Range: 0.0 to 0.3 percent Median: 0.2 percent	Jun = 0.0%	We look for total business inventories to be up by 0.2 percent and look for total business sales to be up by 0.4 percent.

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