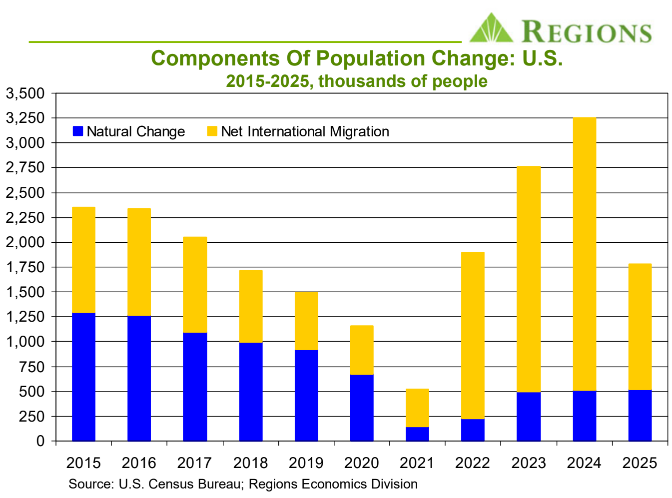
ECONOMIC OUTLOOK
REGIONS
February 2026

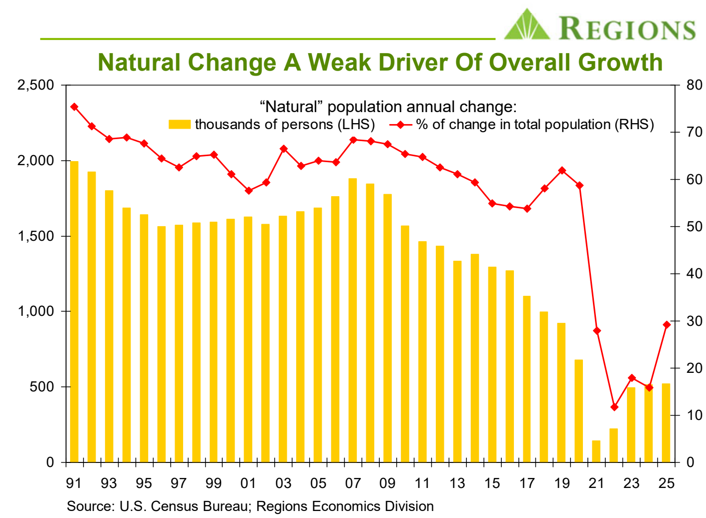
Slower In-Migration Exposes Weak Underlying Trend

The U.S. Census Bureau recently released comprehensive data on 2025 U.S. and state level population, including the components of population change. The pace of population growth slowed sharply in 2025 as considerably weaker international in-migration flows exposed the long-running weakness in natural population growth. Total U.S. population grew by just 0.5 percent in 2025, ending a three-year run of notably faster growth fueled by meaningfully faster international in-migration. That population growth slowed markedly in 2025 comes as no surprise; the stage was actually set in mid-2024 when changes in immigration policy enacted by the Biden administration led to significantly slower inflows along the Southern border. Further changes in immigration policy and heightened enforcement measures led to a further slowdown in international in-migration over the course of 2025.

Net international in-migration for the U.S. fell from 2.734 million persons in 2024 to 1.262 million persons in 2025, with every state in the U.S. seeing a decline from 2024. We think, however, that the 2025 figures for net international in-migration are overstated. Keep in mind that Census reports the annual population changes not on a calendar year basis but on a July/July basis, and our sense is that the latter months of 2025 likely saw further outflows of foreign-born persons that have not yet been picked up in the Census estimates. If we are correct on this point, then it follows that the 2026 vintage population estimates will show a more severe drop-off in net international in-migration than that reported in the 2025 vintage data which, in turn, would mean further deceleration in total population growth.



The chart above breaks down the annual increases in total U.S. population into their component parts. The surge in international in-migration over the 2022-2024 period was the clear driver of what was faster growth in total population over this period before both slowed sharply in 2025. The horrible toll, in the form of a spike in mortality rates, taken by the pandemic can be seen in the dramatic drop-off in "natural" population growth (the difference between births and deaths in a given time period) in 2020 and 2021. As mortality rates began to subside from the pandemic-related spike, natural population growth picked up a bit but nonetheless remains well below pre-pandemic norms. This reflects mortality rates still above where they were prior to the onset of the pandemic combined with birth rates continuing to decline.



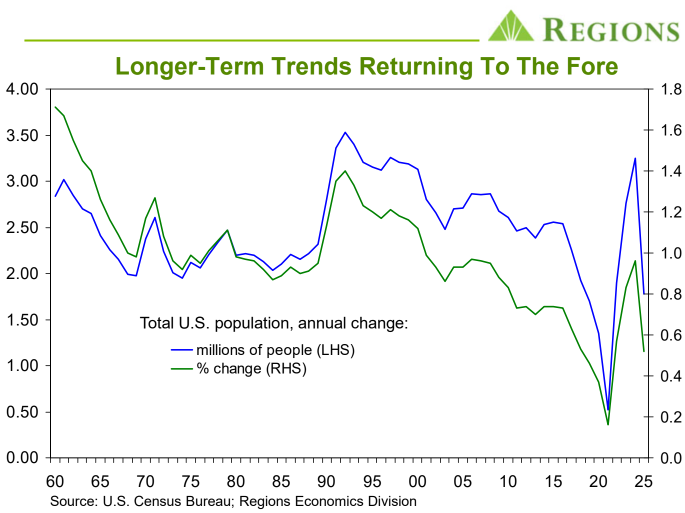
It is worth noting that natural population growth had been eroding for many years prior to the pandemic-related spike in mortality rates, as can be seen in the above chart. For instance, in 1991 the natural increase in population for the U.S. was slightly below two million persons, an increase which accounted for three-quarters of that year's change in total U.S. population, whereas in 2025 the natural increase in population was just 518,858 persons, which accounted for twenty-nine percent of the change in total U.S. population. It is also worth noting that this pattern is not unique to the U.S. but instead can be seen, and is typically even more pronounced, across the developed world.

As noted above, the long-running trend of declining birth rates continued in 2025, and a meaningful reversal seems unlikely any time soon. At the same time, mortality rates remain above where they were prior to the pandemic even allowing for what had been a slight upward drift in the pre-pandemic years. In other words, it is likely that natural population growth is likely to slow further over the next few years. More immediately, if we are correct in thinking the 2025 vintage population data overstate the magnitude of net international in-migration, the 2026 vintage data should capture that effect. Combined with further deceleration in the rate of

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

natural population growth, this would yield a significantly smaller increase in total population than shown in the 2025 vintage data.

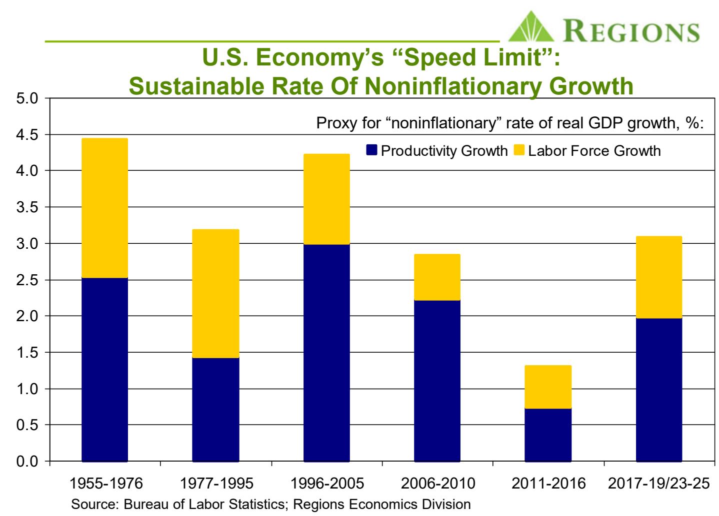
As a side point, while by definition net domestic migration is zero for the U.S. as a whole, it is a meaningful driver of changes in total population for individual states, metro areas, and counties. One notable element of the 2025 vintage population data is the extent to which domestic migration flows slowed in a number of areas which have tended to magnets for those relocating from one part of the U.S. to another. To some extent, this reflects softening labor market conditions and a sharply lower rate of housing market turnover; higher mortgage interest rates have effectively "locked" significant numbers of homeowners in place while affordability constraints for prospective buyers have limited mobility. Though overall mobility was lower in 2025, the relative rankings amongst states, in terms of net domestic in-migration, were little changed. For instance, though each saw considerably less net domestic in-migration in 2025 than over the prior few years, Florida and Texas were still amongst the states drawing the heaviest inflows of people moving from other parts of the U.S. We do not expect much of a pick-up in mobility in 2026, and think that the relative rankings amongst states and metro areas are also unlikely to change much.



Clearly, the pandemic and changes in immigration policy, including enforcement, have had meaningful impacts on population growth over the past several years. With these effects fading, the longer-term trends are likely to reemerge, and overall population growth is likely to remain rather listless. One thing that has gone largely overlooked in the reactions to the 2025 vintage population data is that the 0.52 percent increase in total U.S. population in 2025 matches the increase seen in 2019, the year prior to the distortions mentioned above began to kick in. The steady deceleration in population growth reflects the underlying deterioration in natural population growth, which leaves international in-migration as somewhat of a swing factor in terms of total population growth.

It seems that the pendulum has swung from one extreme – virtually unchecked inflows – to the other – sharp curbs on inflows, stepped-up deportation efforts – over the past few years, with a more feasible approach lying somewhere in between. That has yet to be determined, but a look at the longer-term trends in natural population change should bring some sense of urgency to finding that middle ground. Demographics may or may not be destiny but, either way, they do have significant implications for economic growth, in the present and over time. For instance, we've pointed to diminished international in-migration as one factor behind the pronounced slowdown in hiring in 2025 and expect it to remain a drag on job growth in 2026.

While we've also argued that the ongoing acceleration in the trend rate of labor productivity growth has much further to run, the beneficial impacts on economic growth and inflation will be blunted by meaningfully slower labor supply growth, and where all of this nets out remains to be seen. This is a particularly relevant question given that Kevin Warsh, recently nominated to be the next Chair of the Federal Reserve, has been an active proponent of the notion that the U.S. economy is on the verge of a significant, sustained acceleration in productivity growth that will help prompt faster real GDP growth and lower inflation, which he believes would warrant the Fed funds rate being lower than it presently is. We do not disagree with the premise of a significant, sustained acceleration in labor productivity growth, as we've been making that argument for some time and have pointed out that the origins of the ongoing acceleration in productivity growth can be traced back to the second half of 2017 (most recently, in our January *Outlook*). Instead, it isn't clear to us that Mr. Warsh is accounting for the effects of meaningfully slower labor supply growth, unless he is assuming productivity growth will be rapid enough to more than offset slower labor supply growth. We think the best way to assess this question is with our trusty "speed limit" chart, which we most recently used in last month's discussion of productivity growth.



We use this chart to illustrate the point that the rate at which any economy can grow on a sustained basis over time without sparking inflation pressures, i.e., the economy's "speed limit," is a function of two things – the rate of growth of total labor input and the rate of labor productivity growth. As we've noted, labor productivity growth began to accelerate over the back half of 2017 which, in our view, was triggered by the extent to which the labor market had tightened. That acceleration was disrupted by the pandemic and the policy response to it but had begun to reemerge by the end of 2023. It is important to note that the faster labor force growth seen in the final time period delineated in the chart is primarily a function of the surge in international in-migration over

Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

the 2022-2024 period. If we are correct in arguing that sharply curtailed international in-migration will in turn lead to significantly slower labor supply growth, that will act to lower the economy's speed limit, thus countering at least some of the benefits of faster labor productivity growth. Our view is that it is simply too soon to know what the net effect on the speed limit will be.

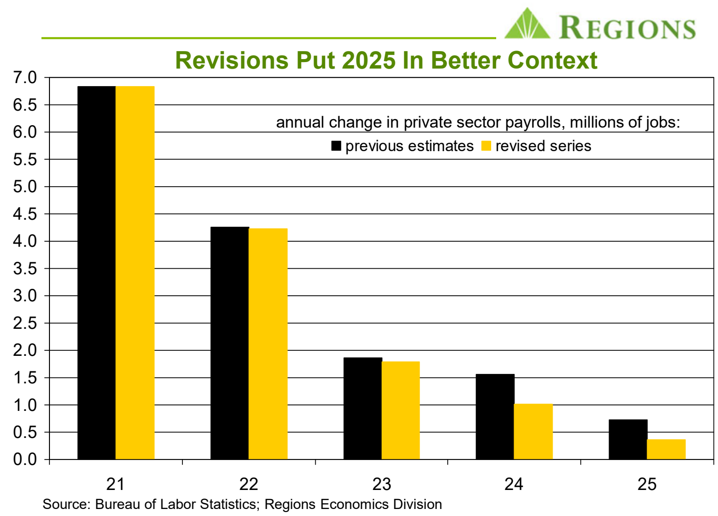
We do not think the possibility that net international migration may actually turn negative at some point should be dismissed out of hand which, if continued, could eventually lead to an outright decline in U.S. population given ongoing deceleration in natural population growth. While that would likely be a catalyst for policy makers settling on a set of immigration policies somewhere in between those that have prevailed over the past several years, it would be far less disruptive for the economy if such a policy were put in place before the U.S. population actually began declining. That we frequently return to the role of demographics as a key driver of longer-term economic growth reflects the importance of understanding and accounting for the implications of shifting population growth patterns.

Upon Further Review, 2025 Labor Market Looks . . . Even Worse

With each year's January employment report, the Bureau of Labor Statistics (BLS) incorporates the results of their annual benchmark revisions to recent historical estimates of nonfarm employment, hours, and earnings. This is the process in which BLS tethers its monthly establishment survey to the universe of payroll tax returns, which cover virtually all nonfarm employment in the U.S., as of the previous March. Last year, the benchmark revisions yielded a sizable downward revision to prior estimates of the level of nonfarm employment as of March 2024, which was not at all surprising as it seemed clear over the course of that year that BLS was overestimating job growth.

We and many others thought that to again be the case over the course of 2025, which was actually a bit grim given the extent to which job growth slowed during the year. So, when in September 2025 BLS announced their preliminary estimate of the benchmark revisions, showing the level of nonfarm employment as of March 2025 would be marked down by 911,000 jobs, it was unsettling but not surprising. With the February 11 release of the January employment report, BLS released the final results of the annual benchmark revisions showing a reduction of 862,000 jobs. Moreover, whereas previous estimates showed total nonfarm payrolls rose by 584,000 jobs in 2025, the revised estimates showed an increase of just 181,000 jobs. Keep in mind that there was a substantial reduction in public sector payrolls in 2025 due to cuts in the federal government workforce, but the revised data show a net gain of only 367,000 private sector jobs in 2025, compared to the previous estimate of a gain of 733,000 jobs.

Each year's benchmark revisions cover the prior five years of seasonally adjusted data, so this round covered the data going back to January 2021. Over the 2021-2025 period, the economy added 15.949 million net new nonfarm jobs based on the revised data, compared to the prior estimate of 16.978 million jobs. Aside from the size of the revision itself, what is striking is that the entire downward revision over the five-year period is almost entirely accounted for by downward revisions to prior estimates of job growth in 2024 and 2025, as can be seen in the following chart.



Note that the chart shows private sector, not total, nonfarm job growth, to get around the impacts of the cuts in public sector payrolls in 2025, as we think the data on private sector payrolls better tells the labor market story over the past few years. Rather than a gain of 1.559 million jobs as had previously been reported, private sector payrolls rose by 1.021 million jobs in 2024, and what now looks to be a weaker labor market in 2024 helps, at least in our view, account for an even weaker labor market in 2025.

After private sector payrolls returned to their pre-pandemic peak in April 2022, the pace of hiring began to decelerate, and that deceleration picked up pace over the next several quarters. One way to think of it is that after rushing to fill the void left by the massive job losses seen in March and April of 2020, when nonfarm payrolls fell by over twenty-one million jobs as the economy largely shutdown, firms pumped the brakes on hiring, though it came to look as though they slammed on the brakes. Couple that with job losses in warehousing, manufacturing, and information services that began in late-2022, and net job growth began to slow sharply during 2023 and into 2024. On top of that came a shift in U.S. immigration policy in mid-2024 that by year-end had led to a sharp reduction in Southern border crossings. That, along with the prospect of further changes in immigration policy in 2025 led us to raise concerns over an outflow of foreign born labor acting as a material drag on job growth in 2025. Combined with sudden and sweeping changes in U.S. trade policy in 2025 that fostered considerable uncertainty around the outlook for manufacturing and trade and raised costs of both consumer and industrial goods, this set the stage for further deceleration in the pace of job growth in 2025, which very much proved to be the case.

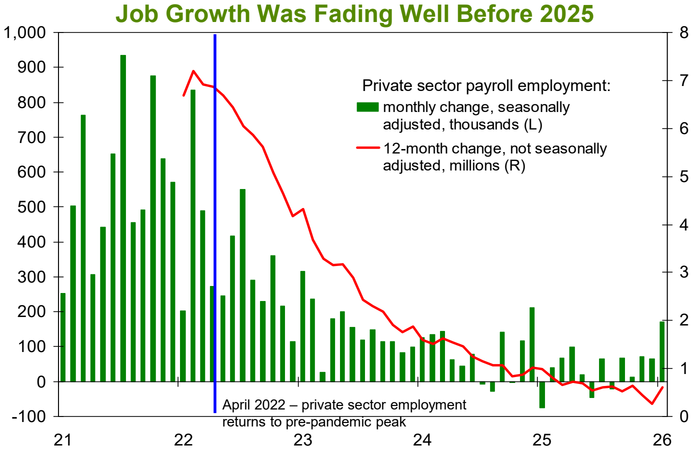
What we did not see in 2025, however, was a pickup in the rate at which workers were being laid off, and despite a series of layoff announcements over recent weeks, the overall layoff rate still remains a bit below where it was prior to the pandemic, as we discuss in the following section. Even so, there was a distinct lull in the pace of economic activity during the summer months of 2025, which took a further toll on job growth and contributed to what the revised data show were declines in private sector payrolls in June and August. When the federal government workers who

Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

had accepted buyouts earlier in the year came off the books in October 2025, total nonfarm payrolls fell by 140,000 jobs that month, putting a further dent in 2025 job growth. At the same time, however, private sector hiring not only began to stabilize but perked up in November and December, setting the stage for an increase of 172,000 private sector jobs in January 2026.

REGIONS

Job Growth Was Fading Well Before 2025



Source: Bureau of Labor Statistics; Regions Economics Division

We think the narrative we laid out can be better visualized with the above chart showing the monthly changes in private sector employment along with the running twelve-month change in not seasonally adjusted private sector payrolls, a proxy for trend job growth. One reason we think this is useful is that it serves as a reminder that, contrary to what some seem to believe, the labor market did not just hit a wall in 2025 due to firms "putting projects on hold due to uncertainty on the policy front," as the most common narrative holds. This isn't to say trade and immigration policy didn't play a role, again, we first began warning of a likely outflow of foreign born labor in late-2024 and repeatedly cited this as a primary culprit in further slowing in job growth over the course of 2025. Instead, the point here is that job growth had already become slower and more uneven well before these policy changes.

We'll make one final note about the annual benchmark revisions. This marks the second straight year in which the magnitude of the benchmark revision was significantly larger (as a percentage of total nonfarm employment) than historical norms. One possible explanation is that as firms report data on job counts in the monthly establishment survey, they are including undocumented workers. But, as these workers are not eligible for unemployment insurance, they would not be included in the payroll tax returns against which the establishment survey is benchmarked each year. Given what were substantially higher net international in-migration flows into the U.S. over the 2022-2024 period, which coincided with a meaningful increase in the foreign born share of the labor force and household employment seen in the household survey data, it seems likely that foreign born labor was playing a larger role in nonfarm job growth than is reflected in the payroll tax return data. Census data show that net international in-migration accounted for just over eighty-five percent of growth in the total U.S. population over the 2022-2024 period. While we cannot quantify any such effect, it has likely played a role in the notably large benchmark revisions in the past two cycles.

"Low Hire-Low Fire" Narrative Beginning To Shift For The Worse?

The annual benchmark revisions to the recent historical data on nonfarm employment show the "low hire" part of the low hire-low fire labor market narrative was even lower in 2025 than had previously been reported. And, despite private sector payrolls rising by 172,000 jobs in January, a rash of layoff announcements over the past few weeks has many concerned that the "low fire" part of that narrative is giving way which could lead to a crumbling labor market that, in turn, would threaten the broader economy. This anxiety is understandable in the context of what we and many others have been describing as a "low hire-low fire" labor market, in that the "low hire" part of that narrative means there is little capacity to absorb a pickup in the pace of layoffs. Moreover, many worry that a pickup in layoffs could easily compound, resulting in a spike in the unemployment rate and perhaps sending the broader economy into recession. While we understand such concerns, we're not sure they're warranted at this point, given that recent layoffs and job-cut announcements have been highly concentrated within two broad industry groups – transportation, warehousing and delivery services and information services. More broadly, the rate at which workers are being laid off, as measured in the data from the Job Openings and Labor Turnover Survey (JOLTS), remains slightly below the pre-pandemic rate and ended 2025 exactly where it began the year (the January JOLTS data are not yet available).

It is also worth noting that layoffs in these two broad industry groups may be saying as much about hiring by firms coming out of the pandemic as they are saying about current economic conditions. For instance, as much of the economy was shut down in the spring of 2020, the net decline in total nonfarm payrolls in March and April was over twenty-one million jobs, but a surge in online shopping helps account for why payrolls in delivery services rose by over thirty-five thousand jobs over this period, and while payrolls in warehousing and storage services dipped during April and May of 2020, by that June they were fifty-four thousand jobs above their February 2020 level. As for information services, while payrolls in the sector as a whole did not return to their pre-pandemic level until September 2021, payrolls in the computing infrastructure providers, data processing services, web hosting services, and web search portals segments surpassed their pre-pandemic peaks in the fall of 2020 while payrolls amongst publishing houses topped their pre-pandemic peak in March 2021. In the industry segments listed here, hiring remained robust for several more months while other broad industry groups, such as leisure and hospitality services, took much longer to add back jobs cut during the spring of 2020. Total private sector employment did not return to the pre-pandemic peak until April 2022.

To some extent, the rapid pace of hiring seen in these industry segments reflected what many thought would be sweeping and lasting changes in consumer and business behavior in a post-pandemic world. For instance, no consumer would ever step foot in a physical store again and no worker would ever step foot in an office not located in their home, to recall a couple. As things began to normalize, however, it became apparent that not all of the changes brought on by the pandemic were as sweeping or as lasting as many anticipated would be the case. This helps account for why, after a period of notably robust hiring, payrolls in warehousing and storage services peaked in March 2022 and have trended lower since, declining by over 100,000 jobs from that point through December 2025. This has gone largely unnoticed in the reaction to recent layoff announcements by Amazon and UPS.

Amazon notably hired aggressively during the pandemic, adding roughly 100,000 workers in a short time period to help meet increased demand. Earlier this month the company announced it would lay off around 16,000 workers, in part due to their shuttering their Fresh and Go grocery stores, with these cuts on top of the 14,000 cuts announced last October. UPS also recently announced another round of layoffs, in this case cutting 30,000 jobs on top of the 48,000 jobs cut last year as the company looks to "right size" operations. Keep in mind that last year UPS moved to cut off small package deliveries associated with Amazon purchases. Following a reduction of one million pieces a day from that source last year, UPS is planning to cut another one million pieces per day this year. It could be that in light of recent increases in labor costs UPS decided it is simply not feasible for their delivery drivers to spend so much time handling so many low-margin deliveries. Either way, these cuts say nothing about Amazon's volume and instead reflect changes in how Amazon gets its packages to their customers. This is a point worth making as some have pointed to job cuts by UPS as a sign of faltering consumer spending, which is not the issue.

It is interesting to note that payrolls in delivery services had been increasing, albeit sporadically, until February 2025 before turning lower, declining by over 63,000 jobs between then and year-end 2025, which in part reflects the cuts by UPS. Technology is another area in which there was aggressive hiring after the onset of the pandemic but of late has been another source of layoff announcements, including Pinterest. The data here, however, are not as clear cut. In general, technology jobs fall under the broad information services industry group, which has seen payrolls decline by over 200,000 jobs since the November 2022 peak. This, however, is more a reflection of ongoing job cuts in two segments – broadcasting and content providers, and telecommunications – in which payrolls had been declining prior to the onset of the pandemic, and steady declines in payrolls amongst motion picture and sound recording industries. It is only recently that, after having risen steadily since the onset of the pandemic, payrolls amongst firms in the computing infrastructure providers, data processing services, web hosting services, and web search portals segments began to post what thus far have been modest declines.

The point here is not to dismiss concerns over recent layoffs or to attempt to minimize the significance of any layoffs that occur throughout the economy. We think, however, that putting recent layoff announcements in context helps to address concerns that rising layoffs are becoming an issue across the broader economy, and thus far there is little evidence of that being the case. As noted above, many were quick to draw sweeping conclusions around how the economy would be impacted by the pandemic, and that may have led firms in certain industry groups to hire aggressively which, in some cases, proved to be overly so.

More broadly, rapidly tightening labor market conditions and heightened worker mobility may have led firms fearing the prospect of labor shortages to hire too aggressively coming out of the pandemic, and the prospect of labor shortages may have led them to keep more workers than present demand would have warranted. While the aggressive hiring part of that has clearly run its course, the question now is whether firms are still willing to hold labor on the prospect of future demand growth. Part of the fear that an initial round of layoffs could gain momentum and turn into a sustained wave is that with looser labor market conditions, the pool of available workers would be deeper than was the case coming out of the pandemic. As such, firms would be less hesitant to lay workers off today if they were less concerned about being able to find workers tomorrow if they decided they needed them. While such reasoning could be driving layoffs in certain industry groups, that the overall layoff rate remains so low suggests it is not driving layoffs on a widespread basis.

Tariffs and disruptions in trade flows are frequently cited as a catalyst for layoffs in the manufacturing sector as well as in warehousing/distribution operations. While we won't claim that tariffs have not had an impact, it is also the case that, as we've pointed out on several occasions, manufacturing output has been more or less stagnant for the past two-plus years, meandering within a notably narrow range, and manufacturing payrolls have been declining over this whole span. To that point, manufacturing employment fell in 2023, 2024, and 2025, with the biggest annual decline coming in 2024 when factory sector payrolls fell by 179,000 jobs compared to a decline of 108,000 jobs in 2025. And, as we noted above, employment in warehousing services peaked in March 2022, while real trade volumes – total exports and total imports adjusted for price changes – were higher in 2025 than in 2024. Again, it could be that the declines in employment seen in 2025 in manufacturing and warehousing were larger than would have been the case had there not been sweeping changes in trade policy, but the data show layoffs in these areas began well ahead of those changes having been implemented.

Another factor playing a role in recent layoff announcements is firms adapting AI and automation. For instance, Dow Chemical recently announced approximately 4,500 layoffs from their global workforce as they focus on AI and automation, and it could be that other firms have done the same, only more quietly. To be sure, manufacturing and warehousing are areas in which automation can be used more intensively than in most other industry groups, and job losses in these two particular sectors, longer-term and more recent, may be tied to greater automation. Either way, our question isn't whether AI and automation are playing a role in layoffs, but rather the extent to which this is the case, and for that matter we could make the same point about the impacts of higher tariffs. We suspect, however, that while many have of late been quick to attribute every bit of downbeat labor market news to either AI/automation or higher tariffs, they are playing less of a role than is being attributed to them.

It is also worth noting that AI may be contributing to the "low hire" part of the low hire-low fire" labor market narrative. Some have argued that job seekers, particularly younger, less experienced job seekers, in fields such as software development that are highly exposed to AI are being shut out of jobs. It has also been suggested that younger job seekers are being shut out of entry level jobs by AI tools that can handle basic, less skilled tasks, and to the extent this is the case it has longer-term implications for job and income prospects for these younger job seekers. More broadly, it could be that firms with open positions are being slower to fill these vacancies than they otherwise would be, as they could be waiting to see whether these roles could be filled, partially or fully, by AI. We'll make the same point here we made above, which is that our question is the degree to which these things are taking place, not whether they are taking place, and how much impact that is having in a labor market in which the level of nonfarm employment is just shy of 160 million workers.

One thing we often find lacking in discussions along these lines is any mention of the supply side of the labor market. That is perhaps not all that surprising given that we so seldom hear any mention of the supply side in discussions of the broader economy. In the context of the labor market, while there have been numerous discussions about how difficult it has become for recent college graduates to find jobs, there has been far less discussion of whether the degrees and skills these graduates possess match the skills being sought by employers. Rather than a general lack of labor demand, the difficulty recent graduates are having finding jobs could at least in part reflect inadequate supply of candidates with the specific skill sets being sought out by firms looking to hire.

More broadly, we can circle back to the discussion of population and labor supply growth we started this edition with. To the extent that middling population growth trends dampen labor supply growth in the years ahead, firms will by necessity become more reliant on AI and automation to augment the productivity of the workers they do have. Whether some firms are already acting in anticipation of such a challenging labor market backdrop is not a question that is easily answered, but it would be surprising if that were not the case. While there will be some degree of displacement in the labor market due to the development and utilization of AI, we still think AI will do more to augment labor productivity than to replace labor. In other words, we see AI as something to be more welcomed than feared, though we are fully aware that this view is far from universal. Regardless of what one believes, no discussion of this issue is complete unless the supply side of the labor market is also taken into account.

As for the January employment report, we'll make the following points. One is that health care and social services accounted for 123,400 jobs of the total increase in private sector payrolls of 172,000 jobs. This does not, however, mean that this was the only industry group adding jobs in January, as is commonly stated. The one-month hiring diffusion index, a measure of the breadth of hiring across private sector industry groups, rose to 55.0 percent in January, the highest reading since December 2024. While the diffusion index would be higher in a more vibrant labor market, January's read is nonetheless the third straight month above 54.0 percent and the average over the past three months is ten points higher than was the case over the summer months when the net change in private sector payrolls was zero. Note that the hiring diffusion index measures the breadth, not the intensity, of hiring across private sector industry groups, and how we square the index being above the fifty percent line with health care and social assistance seeming to dominate job growth is that hiring is not all that intense across most industry groups and is only modestly outpacing the net change in employment across industry groups where payrolls are either flat or declining. For 2025 as a whole, the diffusion index averaged less than fifty percent, but if the pace of economic activity continues to accelerate in the months ahead, the diffusion index will increase and health care/social assistance will account for a lower share of net job growth.

Some were quick to dismiss the reported increase in private sector payrolls in January as no more than seasonal adjustment flattering the headline job growth number. In any given year, not seasonally adjusted private sector payrolls decline in January – over the 1990 through 2026 period there is not a single instance of unadjusted private sector payrolls rising in January. But, with the seasonal factors used to estimate the changes in seasonally adjusted payrolls looking for a decline, a smaller than normal January decline can bias the seasonally adjusted estimate of January job growth higher. January declines in private sector payrolls mainly reflect seasonal layoffs which are concentrated amongst retail trade, warehousing and delivery services, construction, and leisure and hospitality services, reflecting the unwinding of holiday season hiring in the first two groups and reflecting lower industry activity in the winter months in the latter two groups. Ahead of the release of the January employment report, we noted the possibility of seasonal adjustment noise in these industry groups, based on what in retail trade and warehousing and delivery services was the weakest holiday season hiring since 2009, and based on what in construction and leisure and hospitality services had over several months prior been weak hiring. Of these four industry groups, only construction saw a smaller than normal January decline in not seasonally adjusted payrolls, meaning that the reported increase of 33,000 jobs in the seasonally adjusted data was basically a gift from seasonal adjustment. There is little evidence of seasonal adjustment largesse in the other three industry groups.

It is worth noting that each year when the Census Bureau reports its latest estimates of population growth and the components of population change, BLS updates the population controls that anchor the monthly household survey, from which flow estimates of the labor force, household employment, and the unemployment rate, amongst other metrics. This typically occurs in the January data, and as each year's household survey is governed by a different set of population controls, the levels of the series drawn from the household survey are not directly comparable across years. As both the labor force and household employment undergo the same adjustment, the unemployment rate is not impacted by the updated population controls. Given the delay in the release of this year's population estimates, the adjustment of the household survey population controls will not occur until the February data. Given the sizable drop-off in international in-migration reported by Census for 2025, the adjusted population controls will most likely yield an estimate of the size of the labor force in February that is significantly lower than the estimate for January. Again, the two observations will not be directly comparable, our point here is just to prepare you for a possible "sticker shock."

While we do not expect the pace of private sector job growth reported for January to be a sustainable pace, we do think the labor market has stabilized over the past few months and the pace of monthly job growth in 2026 will be better than was the case in 2025. While this doesn't magically cure all of the labor market's ills, particularly given what we expect will be a sharply slower pace of labor supply growth, it does suggest that those who had been writing the labor market's obituary were perhaps a bit premature.

ECONOMIC OUTLOOK

REGIONS

February 2026

Q3 '25 (a)	Q4 '25 (p)	Q1 '26 (f)	Q2 '26 (f)	Q3 '26 (f)	Q4 '26 (f)	Q1 '27 (f)	Q2 '27 (f)		2023 (a)	2024 (a)	2025 (p)	2026 (f)	2027 (f)
4.4	1.8	2.9	2.6	2.3	2.2	2.2	2.1	Real GDP[1]	2.9	2.8	2.2	2.7	2.2
3.5	2.7	2.5	2.6	2.5	2.4	2.5	2.5	Real Personal Consumption[1]	2.6	2.9	2.7	2.7	2.5
3.2	2.5	2.4	3.3	4.4	4.5	4.1	4.0	Real Business Fixed Investment[1]	7.3	2.9	4.1	3.4	4.1
5.3	5.4	3.5	4.6	6.2	4.8	3.9	3.9	Equipment[1]	2.9	3.5	8.4	5.0	4.4
5.6	3.5	3.9	4.0	4.5	5.0	5.0	5.0	Intellectual Property and Software[1]	6.2	3.5	5.5	4.8	4.9
-5.0	-5.8	-3.8	-1.3	0.2	2.4	2.2	1.5	Structures[1]	16.7	1.1	-5.2	-3.3	1.5
-7.1	-3.5	-3.7	-0.7	1.0	1.6	1.6	0.9	Real Residential Fixed Investment[1]	-7.8	3.2	-2.3	-2.8	1.3
2.2	-7.2	7.3	0.9	0.7	0.7	0.6	0.3	Real Government Expenditures[1]	3.5	3.8	1.0	0.9	0.5
-955.5	-941.7	-1,008.4	-1,023.1	-1,040.3	-1,046.4	-1,057.5	-1,068.0	Real Net Exports[2]	-925.2	-1,032.6	-1,084.0	-1,029.6	-1,078.3
883	891	902	909	917	924	930	936	Single Family Housing Starts, ths. of units[3]	947	1,016	932	913	940
456	397	417	420	423	430	434	438	Multi-Family Housing Starts, ths. of units[3]	473	355	413	422	439
1.3	0.8	0.5	0.0	-0.1	0.0	0.7	1.8	CoreLogic House Price Index[5]	4.0	4.3	1.6	0.1	1.9
16.6	15.7	15.5	15.7	15.8	15.9	16.0	16.0	Vehicle Sales, millions of units[3]	15.5	15.9	16.2	15.7	16.0
4.3	4.5	4.3	4.3	4.4	4.3	4.3	4.2	Unemployment Rate, %[4]	3.6	4.0	4.3	4.3	4.2
0.5	0.2	0.2	0.2	0.3	0.5	0.6	0.6	Non-Farm Employment[5]	2.2	1.2	0.5	0.3	0.7
0.0	-0.3	4.3	1.7	2.2	2.0	3.0	2.2	Real Disposable Personal Income[1]	5.7	2.9	1.6	1.8	2.3
3.0	3.1	2.8	2.9	2.5	2.3	2.2	2.1	GDP Price Deflator[5]	3.7	2.5	2.8	2.6	2.1
2.7	2.8	2.7	2.8	2.6	2.5	2.3	2.2	PCE Deflator[5]	3.8	2.6	2.6	2.7	2.2
2.9	2.8	2.6	3.0	2.9	2.8	2.7	2.6	Consumer Price Index[5]	4.1	3.0	2.7	2.8	2.5
2.9	2.8	2.8	2.8	2.6	2.6	2.3	2.3	Core PCE Deflator[5]	4.2	2.9	2.8	2.7	2.2
3.1	2.8	2.7	2.9	2.8	2.9	2.8	2.6	Core Consumer Price Index[5]	4.8	3.4	2.9	2.8	2.6
4.34	3.90	3.59	3.38	3.38	3.38	3.38	3.38	Fed Funds Target Rate Range Mid-Point, %[4]	5.07	5.19	4.25	3.43	3.38
4.26	4.10	4.21	4.23	4.25	4.29	4.31	4.33	10-Year Treasury Note Yield, %[4]	3.96	4.21	4.29	4.24	4.36
6.57	6.23	6.08	6.14	6.15	6.21	6.24	6.27	30-Year Fixed Mortgage, %[4]	6.81	6.72	6.60	6.14	6.31
-2.9	-3.0	-2.9	-3.0	-3.0	-3.1	-3.2	-3.2	Current Account, % of GDP	-3.3	-4.0	-3.7	-3.0	-3.2

a = actual; f = forecast; p = preliminary

Notes: 1 - annualized percentage change 2 - chained 2017 $ billions 3 - annualized rate 4 - quarterly average 5 - year-over-year percentage change

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203

Richard F. Moody
Chief Economist

Greg McAtee
Senior Economist