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Data Summary: GDP, Income & Spending, Durable Goods: Big Load Of Data Changes Little

Revised and more complete source data put **Q1 real GDP** growth at an annual rate of 1.6 percent, down from the BEA's initial estimate of 2.0 percent growth and counter to the modest upward revision we expected to see. In our preview of the revised GDP data, we noted that we expected to see growth in real consumer spending on goods revised higher and growth in real consumer spending on services revised lower, the latter reflecting the results of the Q1 Quarterly Services Survey. While both came to pass, we were wrong in expecting the upward revision to goods spending win out, as the downward revision in services spending was well larger than we expected, mainly reflecting drastic downward revisions to health care spending (note the BEA data on health care spending is not measuring out of pocket spending by consumers but rather total expenditures regardless of the payment source). As such, the revised data show real services spending grew at an annual rate of 1.8 percent in Q1, down from the initial estimate of 2.3 percent. The other big driver of the revision to top-line real GDP growth was a much larger drawdown in nonfarm business inventories than the BEA first estimated. To our point about little changing, however, we routinely point to real private domestic demand – combined business and household spending, as a more reliable gauge of the state of the economy than is top-line real GDP growth. The revised data show real private domestic demand grew at an annual rate of 2.4 percent in Q1, only modestly lower than the initial estimate of 2.5 percent, with notably strong growth in business fixed investment the main driver, which bodes well for longer-term growth.

Total **personal income** was unchanged in April, well short of the 0.4 percent increase we and the consensus expected. At the same time, total **personal spending** rose by 0.5 percent as we and the consensus expected. We can isolate three components of personal income that account for our forecast miss. First, private sector wage and salary earnings were up by 0.3 percent, smaller than the 0.5 percent increase our forecast anticipated based on the earnings details from the April employment report. Second, there was a dramatic decline in farm proprietors' income; farm income spiked in March thanks to payments from the *Farmer Bridge Assistance Program*, but applications were shut down in mid-April, something we simply missed. So, after rising by 101.8 percent in March, farm income fell by 54.8 percent in April, which took 0.23 percentage points off the monthly change in total personal income. Finally, we noted in our

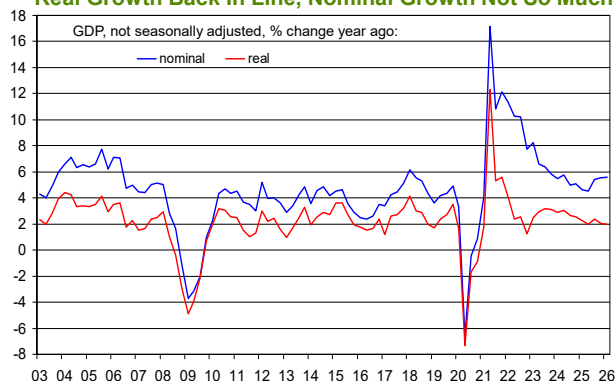
preview of the April data that transfer payments had been a material drag on income growth thus far in 2026, reflecting lower Medicaid reimbursements, declining ACA enrollments, and a steady decline in unemployment insurance benefits. While that drag abated in April, it did so to a lesser extent than we anticipated.

Rather than the flat headline print, what we think to be the most relevant aspect of the data is that BEA revised growth in private sector wage and salary earnings lower from Q4 2025 onward, reflecting the Q4 data from the Quarterly Census of Employment and Wages. The downward revision here in turn led to growth in total personal income over the past several months being slower than had been reported. This takes on added emphasis given the recent upturn in inflation. The **PCE Deflator** rose by 0.4 percent in April, with the **core PCE Deflator** up by 0.3 percent, translating into year-on-year increases of 3.8 percent and 3.3 percent, respectively. The revised earnings data show growth in private sector labor earnings barely keeping pace with, as opposed to easily outrunning, inflation. That consumer spending has thus far been resilient in part reflects the cushion from meaningfully larger income tax refunds than seen last year, and in part reflects ongoing wealth effects from rising equity prices. What is concerning is that the cushion from income tax refunds is wearing thin and we think will be exhausted by mid-summer. We've been clear in pointing to that as the timing of a potentially sharp and sudden pullback in consumer spending barring relief from elevated energy prices. To the extent that income growth is slower than had previously been reported, the odds of such a pullback would seem to be higher while the timing could be sooner than we have been thinking.

Durable goods orders rose by 7.9 percent in April, blowing past the 4.9 percent increase our forecast anticipated thanks to larger increases in orders for civilian aircraft and defense capital goods than we expected. Orders for **core capital goods**, which we routinely cite as the most important element of the durable goods data, fell by 1.1 percent, a bit larger than the 0.9 percent decline our forecast anticipated (the consensus forecast was for a 0.4 percent increase). We see this as no more than payback for an outsized increase in March that was revised higher, now printing at a 3.9 percent increase. The April data do not change our view that the upward trend in core capital goods orders remains intact and that orders growth has broadened beyond AI related investment.



Real Growth Back In Line, Nominal Growth Not So Much



Growth In Business Investment Has Staying Power

