ECONOMIC PREVIEW

REGIONS

Week of July 27, 2026

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 28-29 FOMC meeting):* Target Range Mid-point: 3.625 to 3.625 percent Median Target Range Mid-point: 3.625 percent	Range: 3.50% to 3.75% Midpoint: 3.625%	The flow of economic data releases picks up considerably this week, with the BEA's initial estimate of Q2 real GDP growth (Thursday) and the Q2 Employment Cost Index (Friday) of particular interest. The main focus this week, however, will be the FOMC meeting, and while we continue to expect the Committee to leave the Fed funds rate unchanged, that suddenly seems like a closer call, as can be affirmed in the shift in market pricing of Fed funds futures. Renewed hostilities in the Middle East have sent energy prices sharply higher after June's dramatic declines which, in turn, has added to concerns that inflation will reaccelerate and push further above the FOMC's 2.0 percent target. We do not discount these concerns, and our regular readers well know we were sounding such concerns back when many were going in the other direction. But, what we see as the main sources of inflation pressures at present – tariff pass-through, higher energy prices and spillover into core inflation, and demand-side effects of surging AI investment – are beyond the reach of the FOMC and even were this not the case we do not see Fed Chair Warsh as having any interest in attempting to slow down AI investment. Moreover, higher market interest rates are already doing more than a Fed funds rate hike could do in terms of weighing on economic activity. Nor do we believe Chair Warsh would take higher market interest rates as a sign that he must go along with a funds rate hike to establish credibility with market participants. To be sure, if core inflation reaccelerates and that is sustained, Chair Warsh and the rest of the FOMC will ultimately have no choice, but we do not think now is that time. We do, however, readily acknowledge that there are valid arguments for the FOMC to act now, so while we do not expect a Fed funds rate hike at this week's meeting, neither do we rule it out. While there are valid arguments to be made for the FOMC moving this week, "the lowest level of initial claims for unemployment insurance benefits since 1969" is most definitely not one of them, even though some are pointing to the surprising drop in initial claims as further evidence to support a funds rate hike. The fifty-plus year low in initial claims is no more than a gift from seasonal adjustment, which can be seen by anyone bothering to look at the not seasonally adjusted data, a/k/a the number of people who actually filed claims. The unadjusted data show that the week ending July 18 saw the lowest level of initial claims since . . . wait for it . . . the week ending May 30. Yes, that would be May 30, 2026. The unadjusted data show a pronounced drop in initial claims is common in the third week of any July, i.e., a typical seasonal pattern, and this year was no exception. The difference is that this year's third-week-in-July decline was slightly larger, but that simply reflects sizable declines in Michigan and New York after initial claims in those states spiked in the prior week. That the seasonally adjusted number fell so sharply on what was but a slightly larger than normal decline in the raw data is a failure of seasonal adjustment, not a statement of the strength of the labor market that gives the FOMC grounds to hike the funds rate. Yet, market participants and Fed funds futures pricing reacted to what was no more than seasonal adjustment noise. This goes straight to a point we made in our July *Monthly Economic Outlook*, which is that while many complain the FOMC pulling forward guidance will lead to greater market volatility, we'd argue that market participants having outsized reactions to headline numbers not supported by the details of the data releases is a source of as much, if not more, market volatility than will be the absence of non-binding and frequently changing "guidance."
June Durable Goods Orders Monday, 7/27 Range: 0.5 to 5.7 percent Median: 1.5 percent	May = -4.5%	<u>Up</u> by 2.6 percent with a significant boost from nondefense aircraft as Boeing's orders bounced back after having fallen sharply in May. We'll throw out our usual caveat here, which is that the mapping from unit orders for commercial aircraft to the dollar volume reported in the monthly Census reports is far from direct, meaning there is plenty of play in the headline orders number. This is why we always point to ex-transportation orders and core capital goods orders as much more meaningful gauges of orders, particularly the latter as core capital goods orders are a very early indicator of business investment in equipment and machinery as reported in the GDP data. Core capital goods orders have been on quite a tear since the middle of last year with growth having become more broadly based as this run has continued. Still, it does seem reasonable to expect growth in core capital goods orders to slow, perhaps sharply, at some point, and it is the nature of the orders data that such a slowdown is **Continued on Page Two**:

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June Durable Goods Orders Monday, 7/27 Range: 0.5 to 5.7 percent Median: 1.5 percent	May = -4.5%	**Continued from Page One**: more likely to be abrupt as opposed to a gradual deceleration. We think the June data will show another month of solid growth, but we'll be watching for signs, such as orders growth becoming more concentrated amongst few industry groups, that this run of growth could be nearing the end.
June Durable Goods Orders: Ex-Trnsp. Monday, 7/27 Range: -0.1 to 1.2 percent Median: 0.9 percent	May = +1.4%	We look for ex-transportation orders to be up by 1.1 percent, and we look for core capital goods orders (nondefense capital goods excluding aircraft and parts) to be up by 1.0 percent.
June Advance Trade Balance: Goods Tuesday, 7/28 Range: -$-104.0 to -$95.1 billion Median: -$100.1 billion	May = -$105.9 billion	Narrowing to -$95.5 billion. Sharply lower energy prices will wreak havoc on both the export and import sides of the trade account ledger. But, even if we are correct in expecting the net result to be a narrowing of the deficit in the goods account, the overall trade deficit for Q2 will be wider than was the case in Q1, at least on a nominal basis. After adjusting for price changes and flows of nonmonetary gold that are reported in the Census data but which do not enter into the GDP data, it could be that net exports are not as much of a drag on Q2 real GDP growth as might be implied by the Q2 nominal trade deficit.
July Consumer Confidence Tuesday, 7/28 Range: 91.3 to 94.5 Median: 92.3	Jun = 91.2	Up to 94.1 but, even if we're correct in expecting some improvement in the headline index number, that seems unlikely to last given that gasoline prices reversed course in mid-July and have since moved sharply higher (the Conference Board's July survey would have been largely complete prior to this reversal). Either way, we're always more interested in consumers' assessments of labor market conditions, which have dimmed considerably over recent months. How someone feels about their own job and income prospects is a more relevant factor in spending decisions than is how someone feels about overall economic conditions, and consumers now see jobs as being harder to find than has been the case for some time.
Q2 Real GDP: 1st estimate Thursday, 7/30 Range: 1.5 to 2.9 percent Median: 2.3 percent SAAR	Q1 = +2.1% SAAR	Up at an annualized rate of 2.4 percent.
Q2 GDP Price Index: 1st estimate Thursday, 7/30 Range: 3.6 to 4.5 percent Median: 3.8 percent SAAR	Q1 = +3.6% SAAR	Up at an annualized rate of 4.2 percent.
June Personal Income Thursday, 7/30 Range: 0.1 to 0.4 percent Median: 0.3 percent	May = +0.7%	Up by 0.3 percent. Our forecast anticipates softer increases in private and public sector wage and salary earnings than those seen in May which, if we're correct, sets a soft tone for June income growth. Still, while labor earnings far and away account for the largest block of total personal income, there are a few other categories with the potential to move June income growth. Recall that farm proprietors' income more than doubled in May, reflecting a second round of *Supplemental Disaster Relief Program* payments to producers, a component of the *American Relief Act of 2025.* Though our forecast anticipates some portion of the May increase being unwound in June, the application deadline for these payments was extended through mid-August which could mitigate the extent of any drop in payments in June. The May increase in farm proprietors' income added more than two-tenths of a point to the monthly change in total personal income, and the decline our forecast anticipates would knock one-tenth of a point off the June change in top-line income, but we don't have much confidence in this part of our forecast. In a similar vein, after months of barely budging, nonfarm proprietors' income, a proxy for small business profits, sprang to life in May rising by 1.2 percent and adding more than one-tenth of a point to the monthly change in total personal income. Our forecast anticipates an increase smaller than that seen in May but larger than any increase seen over the prior several months, but this is clearly another spot our forecast could go off course. Another component which bounced back in May after having notably week over prior months is transfer payments, and here too our forecast anticipates a smaller increase in June than that seen in May. We do, however, look for a more solid increase in asset-based income **Continued on Page Three**:

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June Personal Income Thursday, 7/30 Range: 0.1 to 0.4 percent Median: 0.3 percent	May = +0.7%	**Continued from Page Two**: than seen in May, reflecting stronger increases in each individual component, i.e., rental income, dividend income, and interest income. Even if our forecast of a much smaller increase in total personal income than that seen in June is on the mark, the run of declines in real, i.e., inflation adjusted, after-tax income excluding transfer payments should come to an end, but any such relief could prove short-lived.
June Personal Spending Thursday, 7/30 Range: 0.1 to 0.7 percent Median: 0.4 percent	May = +0.7%	Up by 0.7 percent. Soft goods pricing in June will be a drag on growth in nominal spending on goods, with sharply lower prices meaning gasoline will be a particularly powerful drag. Real spending on goods, however, should be firmer. Higher unit sales mean new vehicles should be supportive of spending on consumer durable goods. If there is to be a boost in spending related to the World Cup, it will come in services spending, although the June retail sales data suggest little, if any, impact on spending at restaurants and bars. Keep in mind, though, that BEA relies on a different source to measure spending in this category, while aside from restaurants and bars the retail sales data do not capture services spending. Either way, to the extent there is such a boost in the June data, it will reverse in the July and/or August data. If nominal June spending is as robust as we anticipate, that will translate into a strong gain in real spending that will yield faster Q2 growth in consumer spending than many are anticipating. This poses some upside risk to forecasts of Q2 real GDP growth.
June PCE Deflator Thursday, 7/30 Range: -0.3 to 0.0 percent Median: -0.1 percent	May = +0.4%	Down by 0.2 percent, yielding a year-on-year increase of 3.6 percent. We look for the core PCE Deflator to be up by 0.1 percent, for a year-on-year increase of 3.3 percent.
Q2 Employment Cost Index Friday, 7/31 Range: 0.7 to 0.9 percent Median: 0.8 percent	Q1 = +0.9%	Up by 0.7 percent, with the wage costs component and the benefit costs component each up by 0.7 percent. Our forecast would leave the total ECI up 3.2 percent year-on-year, with wage costs up 3.0 percent and benefit costs up 3.6 percent. Our forecast would yield the smallest year-on-year increase in wage costs since Q1 2021, falling in line with other indications of slowing growth in wage costs. The same is not, however, true of growth in benefit costs, and our forecast would mark the seventh consecutive quarter in which the ECI data show growth in benefit costs equal to or faster than growth in wage costs. To be sure, wages carry a much higher weight in terms of total labor compensation, so decelerating wage growth is acting to slow growth in total labor compensation. We and many others, including the FOMC, see the Employment Cost Index as being the best measure of changes in labor costs, in part because the manner in which it is constructed means the ECI is free of the mix bias that can and often does skew the average hourly earnings metric, and in part because the ECI also accounts for benefit costs. Even if our forecast of the ECI wage costs component is a bit on the light side, the trend rate of growth will still be slowing, which many will point to as evidence that the labor market is not a source of inflation pressures in the broader economy. We'd argue that has been the case for quite some time now given the ongoing acceleration in the trend rate of productivity growth, though many of those who point to wage growth as an indicator of broader inflation pressures fail to take productivity growth into account.

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