ECONOMIC PREVIEW

REGIONS

Week of September 14, 2026

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 15-16 FOMC meeting):* Target Range Mid-point: 3.625 to 3.875 percent Median Target Range Mid-point: 3.625 percent	Range: 3.50% to 3.75% Midpoint: 3.625%	Last Friday's August CPI report showed the core CPI up 2.4 percent year-on-year, the smallest such increase since March 2021, and at the same time showed inflation pressures were less broadly based than had been the case in months prior. Yet, in the wake of the August CPI report, a twenty-five basis point hike in the Fed funds rate at this week's FOMC meeting is generally seen as a "done deal" on the basis of the monthly change in the core CPI coming in "hot," i.e. a 0.3 percent increase rather than the 0.2 percent increase that had been expected. To our earlier point, though, the larger than expected increase reflects some large increases in a few components as opposed to a broad move higher across the individual components. For instance, thanks to a 5.9 percent increase in prices for cell phone services, prices in the broad education and communications services category were up 1.8 percent in August, which alone added one-tenth of a point to the monthly change in the total and core CPI. After having registered oddly large declines in both June and July, lodging rates recouped some of that ground in August, rising by 2.4 percent. Finally, a smaller than typical August decline in air fares on a not seasonally adjusted basis, which could have reflected rising fuel costs, translated into a 2.7 percent increase on a seasonally adjusted basis. Absent, say, the sizable increase in prices for cell phone services, the reaction to the August CPI report and perceptions of what it might mean for the FOMC would be considerably different. Be that as it may, the focus has been on the headline print – the 0.3 percent increase in the core CPI – rather than the details beneath that headline, hence a twenty-five basis point increase in the funds rate at this week's meeting being almost fully priced into the markets. It could be that given the recent moves in market interest rates and other central banks having already raised (ECB) or being poised to raise (Bank of Japan) their policy rates, the FOMC pushing the funds rate higher this week was going to happen whatever the August CPI data looked like, as some FOMC members have argued should be the case. Moreover, Fed Chair Warsh has routinely noted that rather than the Fed guiding the markets, the markets should be guiding the Fed, and the markets are clearly, and not at all quietly, letting the FOMC know a hike at this week's meeting is expected. Keep in mind that this week's meeting brings a set of updated economic and financial projections, including an updated "dot plot." Of particular interest to market participants will be where the median year-end 2026 dot falls – it will likely imply at least one more twenty-five basis point increase by the end of this year – and the dispersion of the dots around the year-end medians for 2026 and 2027 will be an indication of how divided Committee members are in their views of the path of inflation. It could be that Chair Warsh will downplay the dot plot in his post-meeting press conference but, either way, he is likely to be pressed to explain what changed from July to warrant a rate hike this week and how much further the Committee may have to go, though he will likely deflect questions on the latter given his disdain for forward guidance. We continue to maintain that most of the factors supporting inflation pressures are beyond the reach of central banks, and that the impact of higher market interest rates is already being felt in the economy without the FOMC having moved. That said, the markets want what the markets want, and at present that is a hike in the funds rate this week.
August Retail Sales: Total Wednesday, 9/16 Range: 0.1 to 1.5 percent Median: 0.8 percent	Jul = -0.6%	<u>Up</u> by 1.2 percent. Our forecast in part reflects some evening out from the deviations from typical spending patterns over the two months prior, with the shift in the timing of the summer Amazon Prime Day(s) sales event – moved up to June this year from the more typical July – a primary factor behind these shifts. At the same time, higher gasoline prices will be a support for top-line sales, as will solid motor vehicle sales. We do have some reservations about vehicle sales, however, in that while the seasonally adjusted annualized data show a strong gain in unit sales of new vehicles, the not seasonally adjusted data show a smaller than typical August increase. While pricing will be a support, with the August CPI data showing higher prices for both new and used vehicles, we think the risks to our forecast of motor vehicle dealer sales revenue are weighted to the downside. On the whole, however, prices will be more or less neutral; the CPI measure of prices for core (non-food, non-energy) goods was up by 0.1 percent in August, but just barely as it took help from upward rounding to **<u>Continued on Page Two</u>**:

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August Retail Sales: Total Wednesday, 9/16 Range: 0.1 to 1.5 percent Median: 0.8 percent	Jul = -0.6%	**Continued from Page One**: notch that modest increase. Many retailers used tariff refunds to lower prices on certain goods to help prompt sales, though any such reductions are likely to be one-off in nature. Either way, the more pertinent number will be control group sales, and our forecast anticipates a hefty increase in sales by nonstore retailers, a category dominated by online sales, after an atypical July decline that reflects the shifting timing of online sales promotions this summer. We do, however, expect sales at furniture stores and electronics stores to be somewhat weak, particularly with slumping home sales and much weaker pricing in August weighing on furniture store sales. Our forecast combined with the August CPI data would put real control group sales up 0.8 percent in August (up 3.7 percent year-on-year), but keep in mind that would follow a 0.8 percent decline in July, so in that sense even if our forecast of control group sales is on or near the mark, growth in real consumer spending on goods will be meaningfully slower for Q3 as a whole than was the case in Q2.
August Retail Sales: Ex-Auto Wednesday, 9/16 Range: 0.2 to 0.9 percent Median: 0.5 percent	Jul = -0.3%	Up by 0.9 percent.
August Retail Sales: Control Group Wednesday, 9/16 Range: 0.2 to 1.3 percent Median: 0.4 percent	Jul = -0.4%	Up by 1.0 percent.
July Business Inventories Wednesday, 9/16 Range: -0.3 to 1.0 percent Median: 0.8 percent	Jun = 0.0%	We look for total business inventories to be up by 0.8 percent and for total business sales to be up by 0.3 percent.
August Housing Permits Thursday, 9/17 Range: 1.340 to 1.430 million units Median: 1.405 million units SAAR	Jul = 1.433 million units SAAR	Down to an annual rate of 1.411 million units. On a not seasonally adjusted basis, we look for total permit issuance of 120,600 units, down 7.2 percent from July with declines in both single family and multi-family permits. On the multi-family side, that decline reflects some settling back after strong advances in June and July. To that point, our forecast would leave the running twelve-month total of not seasonally adjusted multi-family permits, which we see as the most reliable gauge of underlying trends, at 535,700 units, the highest such total since April 2024. The story on the single family side, however, is quite different as builders are scaling back on planned new construction amid still-elevated spec inventories and further erosion in affordability due to the latest upward move in mortgage interest rates. While we think the pullback continued at a somewhat orderly pace in August – mortgage rates didn't kick up until late in the month – the risks to our forecast of single family permits would seem to be tilted to the downside, particularly in light of what remains a sizable backlog of single family units already permitted but not yet started.
August Housing Starts Thursday, 9/17 Range: 1.200 to 1.448 million units Median: 1.315 million units SAAR	Jul = 1.239 million units SAAR	Up to an annual rate of 1.448 million units. On a not seasonally adjusted basis, we look for total starts of 125,900 units, up by 13.2 percent from July with like-sized increases in both single family and multi-family starts. Not only is our forecast far above the consensus forecast, but it also may seem totally at odds with what we've written above about our expectations for single family permit issuance. The key here, however, is what was really behind the sharp decline in unadjusted housing starts in July, down 16.7 percent from June. It came as no surprise that many were quick to attribute that decline to affordability constraints curbing demand to the point that builders pulled back sharply on new single family starts. We had a different take, as we wrote in our wrap of the July data. While it is true that unadjusted single family starts fell by 15.6 percent in July, it is also true that unadjusted multi-family starts fell by 18.6 percent. Moreover, though not nearly to the extent as multi-family permits, unadjusted single family permits increased in July, which would hardly be consistent with builders having thrown in the towel to the extent implied by the drop in starts. We thought the July starts data had more to do with what was a much hotter July than is typical and a large swath of the U.S. being blanketed by smoke from the **Continued on Page Three:**

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August Housing Starts Thursday, 9/17 Range: 1.200 to 1.448 million units Median: 1.315 million units SAAR	Jul = 1.239 million units SAAR	**Continued from Page Two**: Canadian wildfires to the point that for much of July it was hazardous to be outside let alone to be working outside. Again, we'd point to the sizable declines in both single family and multi-family starts while permit issuance increased in both segments, and we'll also note the steep declines in single family and multi-family completions to support our assertion that July had more to do with weather than with the housing market suddenly shifting into a much lower gear. As such, we've incorporated some payback into our forecast of August housing starts, but even if our forecast is on or near the mark, the proper way to look at the data would be to take the average over July and August. While it could be that August brought less payback than our forecast anticipates, our forecast is still consistent with an ongoing pullback in the trend rate of not seasonally adjusted single family starts. While that pullback could have intensified in August, we think it more likely that any such effect will be seen in the September data. That said, if unadjusted single family starts come in closer to July's count than we think will be the case, that will tell us we misinterpreted the root cause of July's decline.
August Industrial Production Thursday, 9/17 Range: 0.0 to 0.8 percent Median: 0.3 percent	Jul = +0.1%	Up by 0.4 percent. Aggregate hours worked amongst manufacturers of durable goods increased by 0.7 percent in August, which we think will more than offset aggregate hours worked amongst manufacturers of nondurable goods having been flat, pushing overall output in manufacturing higher. Our forecast also anticipates mining output and utilities output having supported growth in total industrial production in August.
August Capacity Utilization Rate Thursday, 9/17 Range: 76.2 to 77.1 percent Median: 76.4 percent	Jul = 76.3%	Up to 76.6 percent.
August Leading Economic Index Friday, 9/18 Range: -0.2 to 0.2 percent Median: 0.1 percent	Jul = +0.2%	Down by 0.1 percent.

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