# ECONOMIC PREVIEW

REGIONS

Week of February 24, 2025

| Indicator/Action Economics Survey: | Last Actual: | Regions' View: |
|---|---|---|
| **Fed Funds Rate: Target Range Midpoint** *(After the March 18-19 FOMC meeting):* Target Range Mid-point: 4.375 to 4.375 percent Median Target Range Mid-point: 4.375 percent | Range: 4.25% to 4.50% Midpoint: 4.375% | A busy week for data releases will also bring a flurry of "Fed speak" with a dozen different events on tap for FOMC members. The message, however, will be largely the same, i.e., there is no rush for further cuts in the Fed funds rate and further progress on inflation is by no means a sure thing. Though we do expect the January data on the PCE Deflator, their preferred gauge of inflation, will show some progress, FOMC members are not taking anything for granted at this point, nor should they. |
| **February Consumer Confidence** Tuesday, 2/25 Range: 99.5 to 108.0 Median: 102.7 | Jan = 104.1 | Down to 101.7 though many are bracing for something worse after the University of Michigan's consumer sentiment survey showed sentiment slid almost ten percent between January and February. That the Conference Board's survey is more skewed to perceptions of labor market conditions means it may have held up a bit better, and indeed our main focus will be on the "jobs plentiful/jobs hard to get" spread, which narrowed in the January survey. Additionally, the January survey showed that perceptions of buying conditions for big ticket consumer durable goods softened, reflecting unease over both prices and financing costs. That unease seems unlikely to fade, on either front, in the near term, which could lead to a faster pullback in discretionary consumer spending than many are at present anticipating. |
| **January New Home Sales** Wednesday, 2/26 Range: 630,000 to 705,000 units Median: 675,000 units SAAR | Dec = 698,000 units SAAR | Down to an annual rate of 658,000 units. On a not seasonally adjusted basis, we look for total sales of 57,000 units, up 9.6 percent from December. That, however, would not only be the smallest January increase since 2018 but would also be well below the typical January increase and, as such, would not be looked upon favorably by seasonal adjustment. That accounts for our forecast anticipating a decline in the "headline" – seasonally adjusted and annualized – sales number despite anticipating an increase in not seasonally adjusted sales. There is some downside risk to our forecast stemming from atypically harsh winter weather. Recall that single family housing starts in the South region fell sharply in January, and this is the region in which we'd most likely see any weather-related impact on sales in the not seasonally adjusted data on January new home sales. |
| **Q4 Real GDP: 2nd estimate** Thursday, 2/27 Range: 2.1 to 2.8 percent Median: 2.3 percent SAAR | Q4 1st est. = +2.3% SAAR | Up at an annual rate of 2.2 percent. On net, control retail sales, a direct input into the GDP data on consumer spending on goods, for November and December were revised slightly lower for the two-month period, while trade and inventories are other areas where we could see modest downside revisions. Either way, recall that in the BEA's initial estimate, real private domestic demand – combined household and business spending – grew at an annual rate of 3.2 percent, easily outpacing top-line real GDP growth. That disparity will persist in the BEA's second pass at the Q4 data. |
| **Q4 GDP Price Index: 2nd estimate** Thursday, 2/27 Range: * to * percent Median: * percent SAAR | Q4 1st est. = +2.2% SAAR | Up at an annual rate of 2.2 percent. |
| **January Durable Goods Orders** Thursday, 2/27 Range: -2.0 to 6.5 percent Median: 2.0 percent | Dec = -2.2% | Up by 4.4 percent. Though Boeing saw a surge in orders in December, adjustments to prior months' orders resulted in a much smaller net order total, and it is net orders rather than gross orders that enter into the Census data. The result was a decline in top-line orders in December even as ex-transportation orders and core capital goods orders advanced. Though booking fewer gross orders in January, Boeing's net orders will be up from December, which we think will provide a significant boost to top-line orders. There is considerable uncertainty around the magnitude of this swing though, in the end, it matters little as core capital goods orders are always the most important component of the monthly data on durable goods orders. After having been oddly rangebound since early-2023, core capital goods orders perked up over the final two months of 2024, and we anticipate that carried over into early-2025 (see Page 2). Still, even if we are correct on this point, we'd be wary of pouncing on this as evidence that a sustained rebound in the manufacturing sector is at hand. There are reasons to think that firms are pulling orders forward to front-run higher tariffs, which could also be providing a lift to production. To the extent that is the case, there will be payback later in 2025. Though surveys show many firms are feeling optimistic about the tax and regulatory climate, they are at the same time feeling uneasy about the outlook for trade policy, and our sense is that all of this could, on net, be a wash for capital spending. We'll be watching core capital goods orders in the months ahead to help answer this question. |

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| **January Durable Goods Orders: Ex-Trnsp.** Thursday, 2/27<br>Range: * to * percent<br>Median: * percent | Dec = +0.3% | We look for ex-transportation orders to be up by 0.7 percent and look for core capital goods orders (nondefense capital goods excluding aircraft and parts) to be up by 0.8 percent. |
| **January Advance Trade Balance: Goods** Friday, 2/28<br>Range: -$127.0 to -$109.6 billion<br>Median: -$115.0 billion | Dec = -$122.0 billion | Narrowing slightly to -$121.3 billion. Just as concerns over higher tariffs are leading to firms front-loading capital goods orders, those same concerns are also leading to imports being front-loaded, which is helping sustain wider trade deficits at a time when tepid global growth and a strong U.S. dollar are weighing on U.S. exports. |
| **January Personal Income** Friday, 2/28<br>Range: 0.3 to 0.7 percent<br>Median: 0.4 percent | Dec = +0.4% | Up by 0.6 percent. Though growth in aggregate private sector earnings will have taken a hit from reduced aggregate hours, January income growth will be bolstered by a host of one-off factors including cost of living adjustments to Social Security benefits and public sector earnings, while higher Medicare/Medicaid disbursements will also bolster transfer payments. We also look for a solid increase in asset-based income to boost top-line income growth. Though decelerating along with the trend rate of job growth, growth in aggregate private sector labor earnings continues to easily run ahead of inflation, and while we expect that to remain the case, wavering consumer confidence could have a bigger impact on discretionary spending. |
| **January Personal Spending** Friday, 2/28<br>Range: -0.2 to 0.5 percent<br>Median: 0.2 percent | Dec = +0.7% | Down by 0.2 percent. That control retail sales, a direct input into the BEA's estimates of consumer spending on goods and which account for roughly one-quarter of total consumer spending, fell sharply in January set the tone for a weak print on total spending. Add to that a sharp decline in unit sales of new motor vehicles and services spending likely held down by atypically harsh winter weather, and the net result is what we anticipate will be a decline in nominal spending. One offset to any weather effects on discretionary services spending will be sharply higher utilities outlays, as tipped by a massive increase in utilities output in the industrial production data. As we've noted elsewhere, spending on consumer durable goods was strong over the final two months of 2024, which to some extent likely reflects consumers pulling purchases forward due to concerns over higher tariffs in 2025, as was suggested in the University of Michigan's consumer sentiment surveys. To the extent that was the case, there will be payback in the data over the first few months of 2025. More fundamentally, though aggregate labor earnings continue to grow at a rate easily above inflation and household financial conditions remain, in the aggregate, quite healthy, flagging consumer confidence could become an increasingly heavy weight on discretionary spending over coming months. |
| **January PCE Deflator** Friday, 2/28<br>Range: 0.2 to 0.4 percent<br>Median: 0.3 percent | Dec = +0.3% | Up by 0.3 percent, which would yield a year-on-year increase of 2.5 percent, down a tick from December's rate of 2.6 percent. We look for the core PCE Deflator to also be up by 0.3 percent, which would yield a year-on-year increase of 2.6 percent, down from December's rate of 2.8 percent. Unlike the CPI data, the January PCE Deflator data show some progress on inflation though we suspect that will be of little comfort as inflation nonetheless remains above the FOMC's target rate and many are expecting it to turn higher in the months ahead. |



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