

ECONOMIC PREVIEW



Week of March 3, 2025

Indicator/Action Economics Survey:

Last Actual:

Regions' View:

Fed Funds Rate: Target Range Midpoint <i>(After the March 18-19 FOMC meeting):</i> 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%	Regardless of whether, or to what extent, they actually take effect, the prospect of higher tariffs is impacting consumer and business behavior, and that will be evident in many of this week's data releases. Amid mounting concerns over flagging growth, the February employment report (Pages 2 and 3) will take on greater significance.
February ISM Manufacturing Index Monday, 3/3 Range: 50.0 to 52.2 percent Median: 50.8 percent	Jan = 50.9%	<u>Down</u> to 50.5 percent. Our forecast would signal a second month of expansion after a twenty-six-month run of contraction which, along with core capital goods orders having been notably strong over the past three months, would seem to suggest the stage is set for an enduring expansion in the manufacturing sector. Much as we'd like to, we just can't buy that premise and suspect that, if not all, then at least a sizable part of the recent improvement in data pertaining to the manufacturing sector has reflected firms trying to front-run higher tariffs by pulling orders and expenditures forward. If we're correct, this may buy a few more months of upbeat reads on factory orders, production, and sales, but there will be payback later in the year. To be sure, continued and increasingly broad-based improvement in these metrics would be a sign that our assessment is off base, and we'd happily be proved wrong, but we'll need to see it to believe it. To our point, we look for the ISM's February survey to show further growth in new orders and production, while slower supplier delivery times would be another indicator of increased activity. Again, though, the question is how long this will be sustained. We'll also be closely watching the prices paid index. Obviously, even a temporary pick-up in demand will put upward pressure on prices, but what stood out over the lengthy run of contraction in the ISM's gauge of factory sector activity is how resilient prices of non-labor inputs proved to be. With stronger demand, at least for now, those price pressures will be more intense.
January Construction Spending Monday, 3/3 Range: -0.5 to 0.5 percent Median: -0.1 percent	Dec = +0.5%	<u>Down</u> by 0.4 percent, in part reflecting the atypically harsh winter weather that hampered activity across much of the nation, including the South region as was apparent in the January data on residential construction.
January Factory Orders Wednesday, 3/5 Range: 0.5 to 2.3 percent Median: 1.6 percent	Dec = -0.9%	Up by 2.1 percent. The advance data on durable goods orders show another sizable increase in core capital goods orders. As noted above, however, we see this recent run of strong orders as mostly reflecting firms attempting to front-run higher tariffs as opposed to a lasting, pick-up in capital spending. We look for the same type of effect in orders for nondurable goods in January, bolstering top-line orders growth.
February ISM Non-Manufacturing Index Wednesday, 3/5 Range: 51.0 to 54.7 percent Median: 52.7 percent	Jan = 52.8%	<u>Down</u> to 52.1 percent. Though perhaps not turning up in the February survey, we'll be watching coming months' surveys for signs that educational services, public administration, and professional, scientific, and technical services are being impacted by cuts in government funding and/or employment.
Q4 Nonfarm Labor Productivity: Revised Thursday, 3/6 Range: 1.0 to 1.3 percent Median: 1.2 percent SAAR	Q4: 1 st est. = +1.2% SAAR	<u>Up</u> at an annualized rate of 1.3 percent. The revised GDP data show modestly faster growth in real nonfarm business output than first reported, which should more than negate slightly faster growth in hours worked and nudge productivity growth higher.
Q4 Unit Labor Costs: Revised Thursday, 3/6 Range: 2.2 to 3.2 percent Median: 3.0 percent SAAR	Q4: 1 st est. = +3.0% SAAR	<u>Up</u> at an annualized rate of 2.3 percent. The revised Q4 GDP data suggest that the initial estimate of hourly compensation in the productivity accounts will be revised meaningfully lower, yielding slower growth in unit labor costs than first reported.
January Trade Balance Thursday, 3/6 Range: -\$131.8 to -\$90.0 billion Median: -\$128.7 billion	Dec = -\$98.4 billion	<u>Widening</u> to -\$129.1 billion, which would by far be the largest monthly trade deficit on record in the life of the current data series. The advance data on trade in goods show imports of goods into the U.S. spiked 11.9 percent in January, more than double the hefty increases seen over the prior two months. The common explanation is that the surge in imports reflects firms pulling imports forward to front-run higher tariffs in 2025 but, while we have pointed to firms engaging in such behavior, that only tells part of the story. For instance, of the total increase in imports of goods in December, roughly one-third was accounted for by industrial supplies and materials, but almost the entire increase in this category was accounted for by "finished metal shapes," or, in common parlance, gold, imported from Switzerland. The advance data for January show that almost two-thirds of the increase in total imports of goods was accounted for by industrial supplies and materials, and while the component details are not yet available, it is safe to assume that gold was again the main driver of higher imports in this category. Continued on Page 2

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<p>January Trade Balance Thursday, 3/6 Range: -\$131.8 to -\$90.0 billion Median: -\$128.7 billion</p>	<p>Dec = -\$98.4 billion</p>	<p>Continued from Page 1: In other words, significant quantities of gold have been flowing into the U.S. out of concern over higher tariffs, but unlike other industrial goods and consumer goods, these shipments of gold likely would not have taken place at some future time absent the threat of higher tariffs.</p> <p>Subsequent to the release of the advance data on trade in goods last Friday, analysts began slashing their estimates of Q1 real GDP. For instance, the Atlanta Fed's "GDP Now" tracking estimate was updated to show real GDP contracting at an annual rate of 1.5 percent in Q1, with a vastly larger trade deficit knocking 3.70 percentage points off top-line real GDP growth. We think, however, this may be meaningfully overstated. Our interpretation of the BEA's methodology for estimating imports of goods is that investments in gold – separate from gold used for industrial purposes – are not included in imports of goods as they are in the Census data. As such, we think the Q1 GDP data are unlikely to show a trade deficit as large as that implied by the monthly trade reports. If we are wrong, then obviously the hit to Q1 real GDP growth will be much more severe than we expect. Either way, however, the surge in gold imports over recent months will at some point be reversed, either by the end of Q1, thus mitigating the impact on real GDP growth, or in Q2, thus boosting Q2 real GDP growth. Sure, this is all confusing, but we think it worth going into this detail given the potential impact on Q1 real GDP growth, particularly at a time when many, us included, are getting increasingly concerned over the state of the economy. Our point is simply that, if one is going to be concerned over the state of the economy, those concerns should be founded on something more relevant than physical flows of gold.</p>
<p>February Nonfarm Employment Friday, 3/7 Range: 65,000 to 300,000 jobs Median: 160,000 jobs</p>	<p>Jan = +143,000 jobs</p>	<p>Up by 192,000 jobs, with private sector payrolls up by 163,000 jobs and public sector payrolls up by 29,000 jobs. We do not expect the flurry of actions/executive orders undertaken by the Trump administration will have a large impact on the February data, as workers displaced will likely have still been on the books during the monthly survey period, but there should be a much larger impact in the March data. It could be that uncertainty over these actions and over future funding will have held down hiring in sectors such as government, education services, and health services but, again, we're not sure that will be as visible in the February data as it may be going forward. At the same time, patterns in the not seasonally adjusted data lead us to expect a larger increase in state and local government payrolls than seen in January.</p> <p>Another bout of harsh winter weather in February poses some downside risk to our forecast. Recall that roughly 1.75 million people either did not work at all or worked only part-time hours in January due to adverse weather, well above January averages, with impacts also seen in the data on industrial production, consumer spending, and residential construction. Historically, more people have had their normal work schedules disrupted by adverse weather in February than in January, so in that sense seasonal adjustment should be better equipped to have handled last month's bout of atypically harsh winter weather than was the case in January. Still, we see this as another downside risk to our forecast.</p> <p>On the topic of seasonal adjustment, we've noted that the decline in not seasonally adjusted private sector payrolls in January was smaller than is typical for the month, including last January's decline, but less generous seasonal adjustment than applied to last January's raw data yielded an increase of just 111,000 jobs in the seasonally adjusted data. That we didn't take that as badly as many others did reflects our read of the unadjusted data. That said, there is potential for seasonal adjustment to make this February's hiring look weaker than we think will be the case. Unadjusted payrolls typically rise smartly in February, in part because the disruptions from holiday season hiring/subsequent layoffs have worked their way out of the data. But, should unadjusted hiring this February have fallen short of what is typical for the month, either due to adverse weather, shifts in government policy, or growing unease about growth prospects, that will be treated harshly by seasonal adjustment. At the same time, it isn't yet clear whether the less generous seasonal adjustment applied to the January data reflects a one-off change or the start of a consistent pattern. In short, we know the trend rate of job growth is slowing, but the February employment report may not be a reliable signal of the degree to which that is the case.</p>

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February Manufacturing Employment Range: -10,000 to 5,000 jobs Median: 4,000 jobs	Friday, 3/7	Jan = +3,000 jobs	<u>Up</u> by 4,000 jobs.
February Average Weekly Hours Range: 34.1 to 34.3 hours Median: 34.2 hours	Friday, 3/7	Jan = 34.1 hours	<u>Up</u> to 34.2 hours. The not seasonally adjusted establishment survey data showed the largest January decline in average weekly hours worked in the life of the current series, reflecting the effects of atypically harsh winter weather. While we look for average weekly hours to have ticked higher in February, there is the risk that weather once again disrupted normal work schedules. Either way, with the trend rate of job growth slowing and the average length of the workweek drifting lower, growth in aggregate hours worked has been slowing. To some extent, faster labor productivity growth has acted as an offset, though it is not yet clear whether, or to what extent, that will be sustained but that will have implications for the paths of growth and inflation going forward.
February Average Hourly Earnings Range: 0.2 to 0.4 percent Median: 0.3 percent	Friday, 3/7	Jan = +0.5%	<u>Up</u> by 0.3 percent, for a year-on-year increase of 4.1 percent. Our calls on job growth, hours worked, and hourly earnings would yield a 0.7 percent increase in aggregate private sector wage and salary earnings, leaving them up by 5.1 percent year-on-year.
February Unemployment Rate Range: 3.9 to 4.1 percent Median: 4.0 percent	Friday, 3/7	Jan = 4.0%	<u>Unchanged</u> at 4.0 percent.

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