ECONOMIC PREVIEW

REGIONS

Week of April 14, 2025

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the May 6-7 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%	Amid looming uncertainty over the path of trade policy and considerable volatility in the financial markets, this week is a busy one both for economic data and for "Fedspeak," with nine different speaking engagements, including Chair Powell's speech to the Economic Club of Chicago on Wednesday. Thus far, the message from FOMC speakers has been fairly consistent – the focus is still on inflation and keeping inflation expectations from becoming unanchored with little appetite for a "pre-emptive" Fed funds rate cut to ward off potential deterioration in the broader economy due to expanded tariffs. That message is unlikely to change this week.
March Retail Sales: Total Wednesday, 4/16 Range: -0.3 to 2.0 percent Median: 1.4 percent	Feb = +0.2%	Up by 1.1 percent. Unit sales of new motor vehicles jumped to an annual rate of 17.8 million units in March, the highest monthly sales rate since April 2021 and above the pre-pandemic trend rate. That count includes both consumer and business purchases but, either way, the jump in sales in part reflects purchases being pulled forward to avoid tariff-related price increases. As such, dealer revenue, which is what the retail sales data capture, will be a powerful support for top-line retail sales. That support, however, will be somewhat watered down by a sizable drop in gasoline station sales, reflecting an atypical March decline in gas prices on both a not seasonally adjusted basis and a seasonally adjusted basis. Stripping out motor vehicle and gasoline sales still leaves us with a decent 0.7 percent increase in sales compared to the 0.5 percent increase seen in February. March is typically a strong month for retail sales, in any given year second only to December in terms of the largest monthly increase in not seasonally adjusted control group sales. Our forecast would leave unadjusted control group sales up by just under twelve percent from February, which is actually a bit smaller than the typical March increase. At the same time, however, this year's March seasonal factors should be much more favorable than is typically the case for the month, which enters into our forecast of the seasonally adjusted data. More fundamentally stronger tax refunds relative to last year have been supportive of spending, and given the extent to which atypically harsh winter weather weighed on spending in both January and February, we think there will be some element of payback in the March data. Additionally, we've been noting that spending on consumer durable goods, including motor vehicles, appliances, furniture, and electronics, has been strong over the past few months, in part reflecting purchases being pulled forward ahead of higher tariffs. While we saw that in motor vehicle sales in March, we're not so sure about the other durable goods categories. One thing making it difficult to get a read on this is that prices for core (ex-food, ex-energy) consumer goods were notably weak in March, and that includes vehicle prices; on a seasonally adjusted basis, prices for new vehicles were up by just 0.1 percent in March while prices for used vehicles fell by 0.7 percent. Even if we use the BLS's measure of core goods excluding used motor vehicles, core goods prices were down by 0.1 percent in March, which is counter to what you'd expect were demand still strong. To be sure, many retailers and vehicle producers used incentives to lure buyers but, either way, given that retail sales are reported on a nominal basis, i.e., not adjusted for price changes, weak pricing will be a weight on March sales. One source of uncertainty in our forecast is the nonstore retailers category, the bulk of which consists of online sales. Recall that sales by nonstore retailers rose by 2.4 percent in February, which accounted for seven-tenths of the 1.0 percent increase in control retail sales. This, however, was no more than a gift from seasonal adjusted, as unadjusted sales by nonstore retailers fell by seven percent in February. While our forecast anticipates a modest increase in seasonally adjusted sales in this category in March, we don't have a great deal of confidence in that call and given that online sales account for just under thirty percent of control retail sales, a miss in this category can steer a forecast from being on the mark to being in a ditch. Finally, the one segment of services spending captured in the retail sales data is restaurant sales. While spending on discretionary services, particularly travel-related services, has slowed sharply, our forecast anticipates a health bounce in restaurant sales, which were notably weak over the first two months of this year. To some extent, that weakness was a function of atypically harsh winter weather, and intra-month spending data show restaurant sales were strong in March.

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March Retail Sales: Ex-Auto Wednesday, 4/16 Range: -0.3 to 1.4 percent Median: 0.4 percent	Feb = +0.3%	Up by 0.4 percent.
March Retail Sales: Control Group Wednesday, 4/16 Range: 0.3 to 1.0 percent Median: 0.6 percent	Feb = +1.0%	Up by 0.5 percent.
March Industrial Production Wednesday, 4/16 Range: -0.5 to 0.3 percent Median: -0.2 percent	Feb = +0.7%	Down by 0.3 percent. Though our forecast anticipates manufacturing output will be modestly higher, we look for declines in mining output and utilities output to more than offset that, pulling total industrial production lower. Keep in mind that utilities output was driven significantly higher in January and February by atypically harsh winter weather across much of the U.S., and even though utilities output fell in February, it was still higher than it would have otherwise been. That helps account for the sharp decline we expect to see in the March data.
March Capacity Utilization Rate Wednesday, 4/16 Range: 77.7 to 78.7 percent Median: 78.0 percent	Feb = 78.2%	Down to 77.8 percent.
February Business Inventories Wednesday, 4/16 Range: 0.1 to 0.4 percent Median: 0.2 percent	Jan = +0.3%	We look for total business inventories to be up by 0.3 percent and for total business sales to be up by 1.2 percent.
March Building Permits Thursday, 4/17 Range: 1.337 to 1.475 million units Median: 1.450 million units SAAR	Feb = 1.459 million units SAAR	Down to an annualized rate of 1.337 million units. In any given year, March is the month in which we see the largest increases in housing permits and starts on a not seasonally adjusted basis, as construction activity roars back after the typical winter lull. For this March, however, we're expecting something more along the lines of a polite whisper than a full-throated roar. To that point, on a not seasonally adjusted basis, we look for total permit issuance of 117,200 units, and while that would reflect a 10.2 percent increase from February, that is less than one-half of the typical March increase, and a shortfall of that magnitude in the raw data would be treated most harshly by seasonal adjustment geared for a much larger increase. Our forecast would leave both single family and multi-family permits, not seasonally adjusted, down on an over-the-year basis for a third straight month. While mortgage interest rates did fall during March and the monthly average of 6.70 percent was the lowest since October, we do not think that will have had a meaningful impact on either permits or starts, for both demand-side and supply-side reasons. As for the latter, inventories of spec homes for sale remain worryingly high for many builders, and while down from peak levels, the number of single family units already permitted but not yet started remains meaningfully higher than pre-pandemic norms. To be sure, our well-below-consensus forecast could prove too low due to us underestimating not seasonally adjusted permit counts, overestimating the March seasonal factor, or being off on both. Either way, we'd be shocked to see this March's increase in not seasonally adjusted permits, particularly single family, approach that of a typical March.
March Housing Starts Thursday, 4/17 Range: 1.263 to 1.504 million units Median: 1.416 million units SAAR	Feb = 1.501 million units SAAR	Down to an annualized rate of 1.263 million units. On a not seasonally adjusted basis, we look for total starts of 106,300 units, down 4.3 percent from February with a sizable decline in single family starts more than fully offsetting an increase in multi-family starts. As with housing permits, in any given year March is the month in which we see the largest increase in housing starts on a not seasonally adjusted basis. In that sense, the decline in unadjusted single family starts our forecast anticipates would be particularly notable; in the life of the data that go back to 1959, there has never been a decline in not seasonally adjusted single family housing starts in the month of March. Any such decline, however, would have to be put in the context of February's 18.1 percent increase, the largest February increase since 1992, largely reflecting payback in the South region after unusually harsh winter weather in that region led to a larger than typical January decline. Here's what we think to be the most relevant point in all of this – our forecast would put unadjusted single family starts back on the downward trend in place before these weather-related disruptions. **CONTINUED ON PAGE 3**

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March Housing Starts Thursday, 4/17 Range: 1.263 to 1.504 million units Median: 1.416 million units SAAR	Feb = 1.501 million units SAAR	**<u>CONTINUED FROM PAGE 2</u>** To the extent lower mortgage interest rates in March drew out pent-up demand for single family home purchases, that would not necessarily have led to a corresponding increase in single family starts given how elevated spec inventories of new single family homes for sale are. To that point, completed units account for roughly one-quarter of all new single family homes for sale, a share that has been steadily rising, with shares this high typically seen only during times of market stress. Elevated spec inventories are, even if not to the degree our forecast anticipates, weighing on single family permits and starts. Also, based on patterns in the not seasonally adjusted monthly data, our sense is that construction labor shortages may be intensifying, which would further weigh on starts and completions. At the same time, uncertainty over tariffs, which would increase materials costs, is making it more difficult for builders to navigate a landscape in which affordability constraints are already weighing on demand and consumer confidence has declined sharply. In short, even should the demand side of the market begin to stabilize or improve, that would act as less of a boost to new single family starts than would typically be the case until elevated spec inventories are meaningfully pared down.

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