ECONOMIC PREVIEW

REGIONS

Week of May 12, 2025

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the June 17-18 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%	The flow of economic data picks back up again this week, and one common question will be the extent to which the impacts of higher tariffs are visible in the data for the month of April. We do not expect to see significant impacts in the April Consumer Price Index (see below) but do expect the April retail sales data to show consumers pulling purchases of consumer durable goods forward to avoid tariff-related price increases. In general, however, we think April will be more or less a "transition" month in much of the economic data, with more pronounced effects possible in the May data, though a flurry of new developments on the trade front makes that difficult to peg at this point. Another factor to watch for, even though it will not garner nearly as much attention as trade policy, is the extent to which punitive seasonal adjustment could make some of the April data look notably weak, as we anticipate will be the case with April housing permits and starts (see Page 3). April is typically a month in which we see a marked pick-up in the pace of economic activity, with the seasonal factors set accordingly. If it is the case that this April's bounce in activity was less robust than is typical for the month, seasonal adjustment will punish any such shortfalls.
April Consumer Price Index Tuesday, 5/13 Range: -0.1 to 0.6 percent Median: 0.3 percent	Mar = -0.1%	<u>Up</u> by 0.2 percent, which would yield a year-on-year increase of 2.3 percent. Perhaps the main question looming over the April CPI extent is whether, or to what extent, higher tariffs will have pushed goods prices higher. Recall that goods prices fell in March, with prices of consumer durable goods falling despite a burst of demand as consumers pulled purchases forward to avoid tariff-related price increases. While the decline in goods prices was, at least to us, surprising, it also suggests retailers may be taking a more incremental approach to raising prices, an approach which makes sense given the extent to which consumers are already fatigued after a prolonged period of elevated inflation and an approach made possible by ample inventories. Additionally, given the "on again, off at least for now" nature of announced changes in tariff rates during April, it could be that many retailers are, like the rest of us, watching and waiting to see where tariff rates settle. As such, we do not look for higher tariff rates to have had a meaningful impact on the April CPI data. That said, one place where we do expect to see some impact is vehicle prices. Though not matching March's furious pace, unit sales of new motor vehicles were nonetheless strong in April, with an annual sales rate of over seventeen million units, which at least in part reflected continued front-running of higher tariffs. Unlike March, however, strong sales did lead to upward pressure on new vehicle prices in April, though the increase in the CPI measure will be blunted by seasonal adjustment. Demand for used vehicles has risen in tandem with demand for new vehicles, and while prices on the wholesale level reversed course in April, we do not expect that to be fully reflected in retail-level prices in the April data. Along those same lines, we would not be surprised to see upticks in prices in other categories of consumer durables, such as appliances, electronics, and furniture, but we expect any such increases would be fairly modest, and we'll note that the April seasonal factors will work against price increases in the seasonally adjusted data. Recent months have seen weakness in prices for discretionary services, including lodging and air fares, and we look for that to have again been the case in April. If so, this an instance in which the April seasonal factors will work in favor of a soft April print. More broadly, we look for faster services price disinflation to act as an offset to accelerating goods price inflation in the months ahead, as we discussed in the May edition of our *Monthly Economic Outlook*. Given the significantly higher weight attached to services prices, if we are correct on this point, the increases in gauges of overall inflation may be meaningfully smaller than would be implied by increases in tariff rates.
April Consumer Price Index: Core Tuesday, 5/13 Range: 0.0 to 0.6 percent Median: 0.3 percent	Mar = +0.1%	<u>Up</u> by 0.2 percent, which would translate into a year-on-year increase of 2.7 percent.
April Producer Price Index Thursday, 5/15 Range: -0.3 to 0.5 percent Median: 0.2 percent	Mar = -0.4%	<u>Up</u> by 0.2 percent, which would yield a year-on-year increase of 2.5 percent.

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April Producer Price Index: Core Range: 0.0 to 0.6 percent Median: 0.3 percent	Thursday, 5/15	Mar = -0.1%	Up by 0.3 percent, which would leave the core PPI up 3.1 percent year-on-year.
April Industrial Production Range: -0.3 to 0.5 percent Median: 0.2 percent	Thursday, 5/15	Mar = -0.3%	Up by 0.1 percent. Aggregate hours worked in the manufacturing sector declined sharply in April, with an even larger decline amongst the durable goods industry groups. As such, our forecast anticipates a decline in manufacturing output in the April industrial production data, though we look for higher output in the mining and utilities sectors to offset this and push overall output slightly higher.
April Capacity Utilization Rate Range: 77.2 to 78.4 percent Median: 77.8 percent	Thursday, 5/15	Mar = 77.8%	Unchanged at 77.8 percent.
April Retail Sales: Total Range: -0.6 to 1.4 percent Median: 0.1 percent	Thursday, 5/15	Mar = +1.5%	Down by 0.1 percent. Motor vehicle dealer revenue will be a drag on top-line retail sales, but we nonetheless expect a healthy increase in control retail sales (see below), a direct input into the GDP data on consumer spending on goods. It isn't as though motor vehicle sales were weak in April, instead, they just were not as strong as they were in March. Unit sales of new motor vehicles came in at an annual rate of 17.3 million units, second only to March's sales rate of 17.8 million units as the fastest monthly sales rate since April 2021. To some extent, consumers continued to pull purchases forward to avoid tariff-related price increases further down the line, and dealers were not as aggressive in raising prices in response to higher tariffs as they likely could have been. Still, with April's sales rate reflecting a 3.3 percent decline from March, revenue amongst motor vehicle dealers will be down from March and thus act as a drag on April retail sales, particularly given a punitive April seasonal factor in this category. The story line will be much the same for sales at building materials stores, i.e., payback from a hefty March increase combined with a punitive April seasonal factor should yield a decline in this category but, as with motor vehicles, sales at building materials stores are not included in control retail sales. With a temporary reprieve from the most punitive of the higher tariffs announced on April 2, sales of appliances, furniture, and electronics were likely stronger than would have otherwise been the case, and the April seasonal factors in these categories will be supportive of sales in the seasonally adjusted data. Sales by nonstore retailers, a category dominated by online sales, posted a surprisingly modest gain in March, and our forecast anticipates a rebound in April, though an upward revision to March sales could easily throw our forecast of control retail sales off track. We can't profess a high degree of confidence in our forecast of April retail sales given the numerous crosscurrents shaping consumer behavior. At the same time, goods prices, particularly prices of new and used motor vehicles, may surprise us to the upside, which would impact the retail sales data reported on a nominal basis. At least as far as the April data go, however, tariff front-running and further softness in discretionary services spending should result in goods spending having once again held up better than services spending, though we'll have to wait for the BEA's report on total consumer spending to see if we're correct on that point.
April Retail Sales: Ex-Auto Range: -0.5 to 0.6 percent Median: 0.3 percent	Thursday, 5/15	Mar = +0.6%	Up by 0.4 percent.
April Retail Sales: Control Group Range: -0.5 to 0.6 percent Median: 0.3 percent	Thursday, 5/15	Mar = +0.4%	Up by 0.5 percent.
March Business Inventories Range: 0.1 to 0.4 percent Median: 0.2 percent	Thursday, 5/15	Feb = +0.2%	We look for total business inventories to be up by 0.2 percent and for total business sales to be up by 0.6 percent.

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April Housing Permits Friday, 5/16 Range: 1.307 to 1.485 million units Median: 1.450 million units SAAR	Mar = 1.467 million units SAAR	Down to an annualized rate of 1.307 million units, though if our forecast is on or near the mark the headline permits number would look much worse than will actually be the case. On a not seasonally adjusted basis, we look for total permit issuance of 118,500 units, down 4.6 percent from March with declines in both single family and multi-family permits. Recall that permit issuance was much stronger in March than we anticipated, and that was particularly the case with single family permits given that builders were sitting on uncomfortably elevated spec inventories at a time when affordability constraints were thinning out the pool of prospective buyers. Market conditions didn't improve in April – particularly with mortgage interest rates having risen during the month – and many builders have noted that the start of the spring selling season was much weaker than is typically the case, which helps account for why we expect permit issuance to have slipped in April. If we are correct, however, any softening in permit issuance on a not seasonally adjusted basis will be treated rather harshly by seasonal adjustment, as reflected in our forecast of the headline permits number. Clearly, not seasonally adjusted permit issuance could, as in March, surprise us to the upside, or seasonal adjustment may be more forgiving than we expect. The former would be relevant, the latter would not.
April Housing Starts Friday, 5/16 Range: 1.236 to 1.400 million units Median: 1.365 million units SAAR	Mar = 1.324 million units SAAR	Down to an annualized rate of 1.236 million units. On a not seasonally adjusted basis, we look for total starts of 110,400 units, down from the 110,700 starts seen in both February and March. That such a modest dip in unadjusted starts could translate into as large of a decline in the headline starts number as our forecast anticipates simply goes to the point we made above about how punitive the April seasonal factors are likely to be. We do see some downside risk to our forecast of unadjusted single family starts but, as it is, our forecast would leave them down 18.3 percent year-on-year, reflecting the host of factors – affordability constraints, rising materials costs, elevated spec inventories, and some loosening of supply conditions in the market for existing homes – that are making it tough on single family builders. Note that we are in the seasonally strongest time of the year for single family construction. As such, to the extent that market conditions continue to weigh on demand and leave builders with uncomfortably high spec inventories, the seasonally adjusted counts of single family permits and starts could look notably weak over coming months.

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