ECONOMIC PREVIEW

REGIONS

Week of May 26, 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 data docket is more crowded this week but given what is likely to remain a high degree of volatility in the data stemming from uncertainty around trade policy, this week's batch of releases will likely shed little light on how Q2 real GDP growth will evolve. That said, Thursday's release of the second pass at Q1 real GDP will at least provide a firmer base for the Q2 data given the potential for sizable revisions to the initial estimates of net exports and inventory accumulation. Also on tap for this week is the Wednesday release of the minutes of the May FOMC meeting.
April Durable Goods Orders Tuesday, 5/27 Range: -10.0 to -0.5 percent Median: -7.8 percent	Mar = +7.5%	<u>Down</u> by 9.1 percent. As in the March data, a big swing in the headline orders number will be driven by a big swing in orders for nondefense aircraft. Recall that Boeing logged 163 net orders in March, up from five in February, which was the primary driver of the 7.5 percent increase in durable goods orders in March. In April, however, Boeing logged just eight net orders, and this decline will drag the top-line orders number down substantially, even if by less than our forecast anticipates given that the Census data on dollar volumes do not always align with the data on unit orders. Either way, we routinely note that the single most important line item in the monthly report on durable goods orders is core capital goods orders, and our forecast anticipates a third straight monthly decline (see below). While the financial markets, not to mention analysts, were being whipsawed by April's tariff announcements, the manufacturing sector basically retreated. The ISM Manufacturing Index indicated a second straight month of contraction, the April employment report showed a decline in aggregate hours worked in manufacturing, with a particularly sharp decline amongst producers of durable goods, and the industrial production data show a drop in manufacturing output, and we expect core capital goods orders to have followed suit. It should be noted that Census recently released the annual benchmark revisions to the recent historical data on manufacturing orders, shipments, and inventories, and the revised data show a much weaker profile of core capital goods orders than had previously been reported. While the downward revision to shipments was less harsh, this is one potential source of downward revision to the original estimate of business investment in equipment and machinery in the Q1 GDP data and sets up a weaker trajectory over subsequent quarters than we've been expecting.
April Durable Goods Orders: Ex-Trnsp. Tuesday, 5/27 Range: -1.4 to 0.6 percent Median: 0.0 percent	Mar = -0.4%	We look for <u>ex-transportation</u> orders to be <u>down</u> by 0.4 percent and for <u>core capital goods</u> orders (nondefense capital goods excluding aircraft and parts) to be <u>down</u> by 0.3 percent.
May Consumer Confidence Tuesday, 5/27 Range: 82.0 to 92.8 Median: 87.1	Apr = 86.0	<u>Up</u> to 87.2, reflecting little more than a bounce after a run of five straight months of declines. The decline in the expectations component has been breathtaking; while the headline index declined by 23.8 percent, the expectations component declined by 41.9 percent over the prior five months and in March fell to the lowest level since October 2011. To be sure, sagging confidence has not translated into similar weakness in consumer spending, which we attribute to two main factors. One is that many consumers have been pulling purchases of consumer durable goods forward to avoid tariff-related price increases in the months ahead. The other is that, despite the erosion in the headline confidence, consumers have maintained a constructive view of labor market conditions, which we've always seen as the more relevant factor in spending decisions. To the extent consumers have been front-loading purchases of consumer durable goods, there will be payback in the spending data in the months ahead. What would be of far more consequence, however, would be a pullback in spending triggered by souring views of labor market conditions which, at least for us, remains the most relevant element of the Conference Board's monthly survey.
Q1 Real GDP: 2nd estimate Thursday, 5/29 Range: -0.7 to 0.40. percent Median: -0.5 percent SAAR	Q1: 1st est. = -0.3% SAAR	<u>Down</u> at an annualized rate of 0.5 percent. We're anticipating downward revisions, albeit fairly mild, to the initial estimates of consumer spending on services, business investment in structures and in machinery and equipment, and net exports, which will make the contraction in real GDP a bit sharper than initially estimated. It could be, however, that there is an upward revision to Q1 inventory accumulation that would negate downward revisions in other components. We noted upon the BEA's release of their first estimate that the estimated build in inventories seemed smaller than would be consistent with the surge in imports of goods. This looms as a source of considerable uncertainty around our forecast.

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Q1 GDP Price Index: 2nd estimate Thursday, 5/29 Range: 3.5 to 3.8 percent Median: 3.7 percent SAAR	Q1:1st est. = +3.7% SAAR	<u>Up</u> at an annualized rate of 3.8 percent.
April Advance Trade Balance: Goods Friday, 5/30 Range: -\$173.0 to -\$110.0 billion Median: -\$143.0 billion	Mar = -\$163.2 billion	<u>Narrowing</u> to -\$151.4 billion. There is considerably uncertainty here, stemming from the April tariff announcements and the timing of shipments. As part of imports being front-loaded to avoid higher tariffs, there were considerable volumes of goods in transit to U.S. ports as higher tariffs and the subsequent pause on the most punitive of those tariffs were announced. While some shipments, particularly goods shipped from China, may have been refused at U.S ports and orders made to foreign manufacturers may have been canceled, the temporary reprieve announced on April 9 may have forestalled a more dramatic decline in imports of goods into the U.S. We expect to see a more pronounced decline in the May data, with a second wave of imports from China, to the extent that materializes from the May 12 "semi-truce" between the U.S. and China, not likely to turn up until the June trade data. Again though, we'll note the high degree of uncertainty here leaves us with little confidence in our forecast. Of more relevance, the April data will at least set the baseline for Q2 net exports in the GDP data. Recall that the surge in imports of goods into the U.S. knocked almost five percentage points off Q1 real GDP growth, and we expected a sharp decline in imports in Q2 to be additive to real GDP growth. In light of the May 12 agreement with China, however, the boost to Q2 real GDP growth, at least in terms of GDP accounting, from lower imports may be less substantial than we and many others are at present anticipating.
April Personal Income Friday, 5/30 Range: 0.2 to 1.1 percent Median: 0.3 percent	Mar = +0.5%	<u>Up</u> by 0.3 percent. Our forecast anticipates trend-like increases in private sector wage and salary earnings and in asset-based income. We can, however, point to two areas of uncertainty that could easily push our forecast off track. First, transfer payments have been highly volatile over the past few months, increasing sharply in January and February then declining in March. While we look for a rebound in the April data, if we're off on the magnitude of that rebound, our forecast of top-line income growth will also be off given that transfer payments account for just under one-fifth of total personal income. Second, in many years the April change in rental income can be at odds with the changes over prior months, and our forecast anticipates that being the case this April, but if we're wrong on this point our forecast of top-line income growth could be too low. More fundamentally, the two elements of the income data we're most focused on are growth in aggregate private sector labor earnings and real disposable income excluding transfer payments. Private sector wage earnings continue to grow at a rate faster than inflation, but the differential has narrowed and could narrow further, if not evaporate, should tariffs push inflation higher. That would also weigh on growth of real ex-transfers income, which we see as the key factor in the ability of households to spend and service debt.
April Personal Spending Friday, 5/30 Range: 0.1 to 0.4 percent Median: 0.2 percent	Mar = +0.7%	<u>Up</u> by 0.2 percent. After a notably strong March, spending on consumer durable goods dropped in April and, as such, will be a weight on overall goods spending, as will gasoline thanks to a price-related decline. Our forecast anticipates the smallest monthly increase in services spending since November, thanks in part to what we expect will be weakness in discretionary services spending. Even if real spending is up by just 0.1 percent, as our forecast anticipates, that will still leave Q2 growth in real consumer spending on course to outpace Q1 growth, as the jump in real spending in March set a high base for Q2 growth.
April PCE Deflator Friday, 5/30 Range: 0.1 to 0.2 percent Median: 0.1 percent	Mar = 0.0%	<u>Up</u> by 0.1 percent, which would yield a year-on-year increase of 2.2 percent. We look for the <u>core PCE Deflator</u> to also be <u>up</u> by 0.1 percent, yielding a year-on-year increase of 2.5 percent.

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