ECONOMIC PREVIEW

REGIONS

Week of June 16, 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%	This week's FOMC meeting will bring no change in the Fed funds rate. Neither is the Committee likely to alter their main message, which is that they do not need to be in a hurry to resume cutting the funds rate amid lingering uncertainty around how higher tariffs will ultimately impact prices. The main focus will be around the updated economic and financial projections to be released this week and on Chair Powell's post-meeting press conference, particularly his assessment of the recent labor market data and what thus far remains fairly benign inflation data. We expect the updated Summary of Economic Projections (SEP) to show a downward revision to the prior forecast of 2025 real GDP growth and an upward revision to the prior forecast of 2025 inflation. Market participants will be more focused on the updated dot plot, and we think the question here is whether the updated dot plot will imply one or two 25-basis point funds rate cuts by year-end 2025. Though recent public comments from several FOMC members would point to a single cut, signs of softening labor market conditions and little evidence of tariff pass-through, at least thus far, would make a case for two cuts. Either way, we'll also be watching the dispersion around the median year-end dots as well as how Committee members assess the risks to their growth and inflation forecasts. Recall that in the past two editions of the SEP, members' perceived risks to their inflation forecasts have been overwhelmingly weighted to the upside. If we are correct in expecting at least a modest upward revision to the inflation forecasts, the risk assessment should be at least a bit more balanced.
May Retail Sales: Total Tuesday, 6/17 Range: -0.8 to 0.5 percent Median: -0.6 percent	Apr = +0.1%	Down by 0.8 percent. A sharp decline in unit sales of new motor vehicles, a drop in gasoline sales, weak goods pricing, and unfavorable seasonal adjustment add up to a weak May retail sales report. After March and April saw the strongest monthly sales rates in four years as consumers pulled purchases forward to avoid tariff-related price increases, sales of new motor vehicles fell sharply in May, with the annualized sales rate down over nine percent from April's sales rate. It is worth noting that consumers do not account for all of the purchases reported by BEA in their monthly data on unit sales of new vehicles, thus limiting the impact in the retail sales data in any given month, and it could be that revenue from sales of used vehicles will act as a bit of an offset. That said, prices of new vehicles were down slightly on a not seasonally adjusted basis, and the seasonal factor used by Census to arrive at their estimate of seasonally adjusted revenue at motor vehicle dealers is more punitive for May than for any other month of the year. So, even if not to the degree our forecast anticipates, motor vehicle dealers will be a pronounced drag on top-line retail sales in May. At the same time, retail gasoline prices fell on a not seasonally adjusted basis in May, at odds with typical patterns, meaning the decline in unadjusted prices will be amplified by seasonal adjustment, which we saw in the May CPI data. Those two themes – tough seasonal adjustment, weak pricing – will underpin the rest of the May retail sales data, though electronics and appliance stores will be an exception on both fronts, and our forecast anticipates a healthy gain in this category. We also look for sales by nonstore retailers to have risen, though a miss in this category – in either direction – could easily throw our forecast of control group sales off track given that sales in this category, which are dominated by online sales, account for just under thirty percent of control sales. Despite hefty gains in both March and April, we look for a further, albeit smaller, increase in restaurant sales in May as dining out has, at least thus far, been an exception to softening demand for discretionary services spending. Aside from these categories, however, we expect the May data to look somewhat weak. Again, our forecast may be overstating the case, but the broader point is that the headline numbers will likely look worse than will actually be the case. To that point, our forecast would leave not seasonally adjusted total retail sales up just over five percent from April with unadjusted control sales up just over six percent, smaller than the typical May increases but by no means a disaster. Moreover, our forecast would leave real control sales (i.e., adjusted for price changes) up 4.6 percent year-on-year, slower than the prior several months but still easily ahead of the pre-pandemic trend rate of growth. Aside from motor vehicles, there are mixed signs in the data as to the extent to which purchases of consumer durable goods were pulled **CONTINUED ON PAGE TWO**

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May Retail Sales: Total Range: -0.8 to 0.5 percent Median: -0.6 percent	Tuesday, 6/17	Apr = +0.1%	**CONTINUED FROM PAGE ONE** forward to avoid tariff-related price increases. To the extent that did happen, however, there will be additional payback in the data – for instance, we look for vehicle sales to fall further in June. While this would continue to wreak havoc on the spending data, it would also mask what, on the whole, remain sound household financial conditions underpinned by growth in labor earnings continuing to grow at a rate faster than inflation. To be sure, that could easily change should job growth continue to slow and higher tariffs ultimately pass through to goods prices, but neither of those elements will be in play in the May retail sales data.
May Retail Sales: Ex-Auto Range: -0.2 to 0.9 percent Median: 0.2 percent	Tuesday, 6/17	Apr = +0.1%	Unchanged.
May Retail Sales: Control Group Range: -0.2 to 1.0 percent Median: 0.3 percent	Tuesday, 6/17	Apr = -0.2%	Up by 0.1 percent.
May Industrial Production Range: -0.5 to 0.2 percent Median: 0.0 percent	Tuesday, 6/17	Apr = 0.0%	Down by 0.1 percent. While we look for manufacturing output to have rebounded from April's decline, we look for this to be offset by declines in output in the mining and utilities sectors, with the net result a modest decline in total industrial production.
May Capacity Utilization Rate Range: 77.2 to 77.8 percent Median: 77.7 percent	Tuesday, 6/17	Apr = 77.7%	Down to 77.6 percent.
April Business Inventories Range: -0.1 to 0.3 percent Median: 0.0 percent	Tuesday, 6/17	Mar = +0.1%	We look for total business inventories to be unchanged and for total business sales to be down by 0.1 percent.
May Housing Permits Range: 1.400 to 1.450 million units Median: 1.430 million units SAAR	Wednesday, 6/18	Apr = 1.422 million units SAAR	Down to an annualized rate of 1.411 million units. On a not seasonally adjusted basis, we look for total permit issuance of 131,200 units, up 1.0 percent from April with an increase in single family permits more than offsetting a drop in multi-family permits. Admittedly, single family permit issuance has consistently surprised us to the upside, and that could again be the case in the May data. Though our forecast would leave single family permits down 3.5 percent year-on-year, we'd have expected a larger pullback than that based on elevated inventories of spec homes for sale and an elevated backlog of units already permitted but not yet started at a time when affordability constraints are acting as a meaningful drag on demand. That our forecasts of single family housing starts have been much closer to the mark than have our forecasts of single family permits (not seasonally adjusted) just adds to our bewilderment over the relative resilience of single family permit issuance. This does, however, help account for the growing backlog of permitted but not yet started single family units, but it figures that at some point single family permit issuance will have to be ramped downward. The story in the multi-family segment is at least more consistent; rather than softness in the single family segment triggering a new rush of multi-family activity, multi-family permits have hovered in a fairly narrow range over the past several months. We largely attribute this to what remains a sizable backlog of multi-family units under construction despite considerable progress in paring that backlog down. Barring an easing of the affordability constraints that are weighing on activity in the single family segment, it would be reasonable to expect to see multi-family activity start to push higher, albeit at a more restrained pace than seen during the post-pandemic acceleration.
May Housing Starts Range: 1.334 to 1.400 million units Median: 1.360 million units SAAR	Wednesday, 6/18	Apr = 1.361 million units SAAR	Down to an annualized rate of 1.334 million units. On a not seasonally adjusted basis, we look for total starts of 121,800 units, down 1.5 percent from April with declines in both single family and multi-family starts. Our forecast would leave not seasonally adjusted single family starts down 7.9 percent year-on-year, easily larger than the drop in single family permits. As noted above, we expect this gap to be narrowed by single family permit issuance downshifting as opposed to single family starts shifting **CONTINUED ON PAGE THREE**

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May Housing Starts Wednesday, 6/18 Range: 1.334 to 1.400 million units Median: 1.360 million units SAAR	Apr = 1.361 million units SAAR	**CONTINUED FROM PAGE TWO** into a higher gear any time soon. Builders remain focused on elevated inventories of spec homes for sale and have been more aggressive in offering concessions on price as one means of paring spec inventories down. That many builders have been able to push back on suppliers trying to use tariffs as grounds for raising prices has helped alleviate margin pressures stemming from more aggressive use of price incentives. In both the single family and multi-family segments, backlogs of units under construction remain elevated, but progress in paring these backlogs down has come faster in the multi-family segment of late, which is also something we'll be watching in the May data.
May Leading Economic Index Friday, 6/20 Range: -0.2 to 0.7 percent Median: -0.1 percent	Apr = -1.0%	Down by 0.1 percent.

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