ECONOMIC PREVIEW

REGIONS

Week of July 14, 2025

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the July 29-30 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%	Tuesday's CPI data is being awaited, eagerly or anxiously, depending on one's perspective, as though it will provide a definitive answer on whether, or to what extent, higher tariff rates are being passed along in the form of higher goods prices. As we discuss below, we do not think the June data will settle anything (the obvious caveat being that no given data release in any given month settles anything definitively). While we do look for tariff-related increases in goods prices, we look for services price disinflation to once again be a powerful counter. To the extent that favorable seasonal adjustment is overstating the degree of services price disinflation, however, there will be payback, to an increasing extent once we get past the July data. As for the one-off or sustained price increases argument, we're nowhere close to having an answer. Moreover, we think that argument to some extent misses the forest for the trees, as it ignores the growth side of the puzzle. For those households already feeling greater financial stress after the cumulative price increases over the past few years, higher prices are higher prices, and any further increases will weigh on spending. Another point being widely missed is that even if faster services price disinflation is providing an offset in terms of overall inflation, that is of little or no consolation for lower-to-middle income households for whom discretionary services play no significant role in spending. That is the group of households for whom whatever tariff pass-through we do see will hurt the most.
June Consumer Price Index Tuesday, 7/15 Range: 0.1 to 0.4 percent Median: 0.3 percent	May = +0.1%	<u>Up</u> by 0.2 percent, which would translate into a year-on-year increase of 2.6 percent. In short, we see the June CPI as coming down to a battle of goods versus services. Prices, that is. While we do anticipate core goods prices rising further and for those price increases to be more broadly based than has thus far been the case, we also look for services price disinflation to blunt much of the impact of higher goods prices. It isn't exactly a fair fight, however, since seasonal adjustment is on the side of services price inflation much more so than it is on the side of goods price inflation. Moreover, keep in mind that in terms of the construction of the overall CPI, services prices have almost a two-to-one weight advantage. One thing core (non-food, non-energy) goods prices do have going for them is, at least we think, is that prices for used motor vehicles should be higher in the June CPI data, reflecting hefty increases on the wholesale level over the prior few months – the CPI series typically lags. Indeed, as our forecast of the monthly change in the core CPI is right on the 0.2/0.3 percent border, a large enough increase (i.e., well more than our forecast anticipates) in prices for used vehicles could lead to our forecast for the core CPI being too low. To our point about services price disinflation, travel-related services will remain a drag in the seasonally adjusted data. Still-soft demand continues to weigh on pricing, while we are in the months in which seasonal adjustment for lodging and air fares is the most punitive. Again, given how close our forecast is to that 0.2/0.3 percent border, if we've built in too big of a seasonal adjustment hit for air fares, lodging rates, and car rental rates, our forecast for the core CPI will be on the wrong side of that border. On a seasonally adjusted basis, gasoline prices will be more or less neutral in terms of any impact on the total CPI, with the overall energy price index a bit more supportive. Our forecast anticipates a three-tenths of a point increase in the overall index of food prices. Even if we are correct in expecting services prices disinflation to win out over goods price inflation in the June data, that would settle absolutely nothing, particularly given that once we get past July the seasonal factors for travel-related services will turn from drags to drivers in terms of the monthly changes in the core CPI. To the extent that we are correct in expecting increasing tariff pass-through effects on core goods prices over coming months – an even more pronounced risk should recently revealed tariff rates actually stick – the monthly changes in both the total and core CPI will be much less benign than has been the case over the past few months.
June Consumer Price Index: Core Tuesday, 7/15 Range: 0.1 to 0.4 percent Median: 0.3 percent	May = +0.1%	<u>Up</u> by 0.2 percent, yielding a year-on-year increase of 2.9 percent.
June Producer Price Index Wednesday, 7/16 Range: 0.1 to 0.8 percent Median: 0.2 percent	May = +0.1%	<u>Up</u> by 0.4 percent, for a year-on-year increase of 2.6 percent.

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June Producer Price Index: Core Range: 0.0 to 0.4 percent Median: 0.2 percent	Wednesday, 7/16	May = +0.1%	Up by 0.3 percent, yielding a year-on-year increase of 2.8 percent.
June Industrial Production Range: -0.3 to 0.5 percent Median: 0.1 percent	Wednesday, 7/16	May = -0.2%	Up by 0.5 percent. Our forecast anticipates only a modest increase in manufacturing output with mining and utilities doing most of the heavy lifting, the latter bolstered by higher than normal June temperatures across much of the U.S. One factor behind our forecast being somewhat at odds with the consensus forecast is that we've more or less discounted the signals in the data on aggregate hours worked from the June employment report. While the seasonally adjusted data show declines in average weekly hours and aggregate hours worked, both for the total nonfarm sector and for the manufacturing, mining, and utilities industry groups, the not seasonally adjusted data not only show increases but larger increases than are typical for the month of June. Clearly, we think that the signal sent by the not seasonally adjusted data on hours worked will carry far more weight in the industrial production data, but if we're wrong on this point, then our forecast for June industrial production will be too high.
June Capacity Utilization Rate Range: 77.1 to 77.8 percent Median: 77.4 percent	Wednesday, 7/16	May = 77.4%	Up to 77.8 percent.
June Retail Sales: Total Range: -0.5 to 0.7 percent Median: 0.1 percent	Thursday, 7/17	May = -0.9%	Up by 0.6 percent. Our above-consensus forecasts across the board – total, ex-auto, and control group – allow for some payback for the weakness seen in April and May and also accounts for higher goods prices and friendly seasonal adjustment. Recall that the retail sales data are reported on a nominal basis, meaning they are not adjusted for price changes. As such, to the extent there was more tariff pass-through in June, higher goods prices would be a support for retail sales (the June CPI data will offer hints as to any such effects). That said, even allowing for higher prices, our forecast would still leave a healthy increase in control group sales, worth noting as this segment feeds directly into the GDP data on consumer spending on goods. While various spending trackers point to a bounce in sales in June, any such bounce will be amplified by friendly seasonal adjustment in many of the main categories. While we look for a decline in sales revenue at motor vehicle dealers, reflecting a decline in unit sales of new vehicles and what we expect will be a modest decline in new vehicle prices, the damage would be limited if used vehicle prices rose as we anticipate while seasonal adjustment should be supportive in this category. Higher prices and higher demand should mean gasoline is supportive of total retail sales. As usual, our forecast of control retail sales will be somewhat reliant on how close to/far off we are on sales by nonstore retailers, which account for just under thirty percent of control group sales, and this is one category for which seasonal adjustment should provide a boost. We were quick to argue that consumer spending was not as weak as implied by the headline sales prints in the April and May data, and if our forecast of June sales, particularly control group sales, is on or near the mark, we'll be just as quick to argue that consumer spending is not as strong as that would imply. We've also argued that, to the extent there is a soft spot within overall consumer spending, that spot is discretionary services spending which, with the exception of restaurant sales, is not accounted for in the retail sales data. That said, control group sales coming in well below our forecast would give us cause to reconsider our view.
June Retail Sales: Ex-Auto Range: -0.4 to 0.9 percent Median: 0.3 percent	Thursday, 7/17	May = -0.3 %	Up by 0.8 percent.
June Retail Sales: Control Group Range: 0.0 to 0.9 percent Median: 0.3 percent	Thursday, 7/17	May = +0.4%	Up by 0.9 percent.
May Business Inventories Range: -0.2 to 0.3 percent Median: 0.0 percent	Thursday, 7/17	Apr = 0.0%	We look for total business inventories to be unchanged and we look for total business sales to be down by 0.4 percent.

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June Building Permits Friday, 7/18 Range: 1.304 to 1.442 million units Median: 1.387 million units SAAR	May = 1.394 million units SAAR	Down to an annualized rate of 1.304 million units. On a not seasonally adjusted basis, we look for total permit issuance of 119,800 units, down 4.1 percent from May with single family permit issuance down by over five percent. Recall that we had for some time been perplexed by how resilient single family permit issuance had been in the face of sagging demand for new homes, elevated spec inventories, and a substantial backlog of single family units permitted but not yet started. In contrast, the May data made much more sense to us, as they showed a 4.8 percent drop in single family permit issuance on a not seasonally adjusted basis. Still, we saw that as a start as opposed to a one-off drop which right-sized single family permits. By all accounts, builder sentiment has deteriorated sharply amid continued weakness in demand, which is one reason we look for a bigger drop in single family permits in June than what we saw in May. If we are correct on this point, seasonal adjustment will be quite punitive, and our forecast would put seasonally adjusted annualized single family permits issuance at the lowest monthly rate since March 2023. Seasonal adjustment could also be an issue with multi-family permits; while our forecast of unadjusted multi-family permits would leave them on par with the prior three months, June is a month in which more often than not we see sizable increases. As such, seasonal adjustment would turn a flattish unadjusted permit count into a significant decline in seasonally adjusted annualized multi-family permits. Granted, our forecast of the headline permit number is far below the consensus forecast but, as always, we'll assess how we did on the basis of the not seasonally adjusted data as opposed to the seasonally adjusted annualized data.
June Housing Starts Friday, 7/18 Range: 1.181 to 1.350 million units Median: 1.298 million units SAAR	May = 1.256 million units SAAR	Down to an annualized rate of 1.228 million units. On a not seasonally adjusted basis, we look for total starts of 114,000 units, down 1.0 percent from May with a jump in multi-family starts almost completely negating what we expect will be a 6.1 percent drop in single family starts. When the May data showed a sharp decline in housing starts, many were quick to attribute that to the ongoing travails in the single family segment. The reality, however, is that single family starts were actually modestly higher in May while multi-family starts took a nasty tumble which was largely a result of them having jumped too high in April. We saw that sequence as nothing more than multi-family doing multi-family things, and our June forecast puts multi-family starts in the middle of the range seen over April and May, or, in line with what had been a fairly steady level in the months prior to April. The single family segment, however, will be the story of the June data. As noted above, we look for unadjusted single family starts to be down by over six percent, and a decline of that magnitude would be treated most rudely by seasonal adjustment. Waning buyer interest amid elevated spec inventories has led builders to pull back, and to the extent we are finally seeing that adjustment in the permit data, it follows that starts will, well, follow. Our forecast would leave not seasonally adjusted single family starts down 14.2 percent year-on-year, which would be the largest such decline since April 2023. What's making it even more challenging for builders is that even with starts falling back, waning demand means progress in clearing elevated spec inventories will be harder and harder to come by absent a much more significant decline in starts. This means that, at least for a time, single family permits may be more informative as to overall market conditions than single family starts will be.

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