ECONOMIC PREVIEW

REGIONS

Week of September 1, 2025

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the September 16-17 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 quite crowded in this holiday-shortened week, with Friday's release of the August employment report being the highlight, or at least hopefully not the lowlight. Either way, the August employment report may take a backseat to next week's release of the BLS's preliminary estimate of the annual benchmark revision to the establishment survey data. We'll also be watching the Wednesday release of the latest *Beige Book*, which may shed some light on whether the pace of economic activity picked up, at least modestly, in August, as other indicators suggest.
August ISM Manufacturing Index Tuesday, 9/2 Range: 47.4 to 51.0 percent Median: 49.0 percent	Jul = 48.0%	Up to 50.0 percent suggesting that the manufacturing sector neither contracted nor expanded in August but instead just lied dormant, making it the economic equivalent of the Pittsburgh Pirates' offense. Okay, that's more than a bit harsh, so, apologies to the manufacturing sector. While our projections of the components of the headline index netted out to a neutral reading, there were signs of a stepped-up pace of activity in the manufacturing sector in August. Those include the regional Federal Reserve Bank surveys of the factory sector, which suggest stronger orders and slower supplier delivery times. Moreover, core capital goods orders increased by 1.1 percent in July, and while not the first glimmer of hope from the orders data, what was encouraging is that July's increase was broadly based as opposed to being dominated by a few categories, mainly information processing equipment. That could have set the stage for the ISM's survey to show a pickup in production in August. With intense and broadly based upward pressure on input prices even with the headline index below 50.0 percent, an increasing pace of factory sector activity would add to those pressures, and we expect the August data to show a seventh straight month of the prices paid index above 60.0 percent. To be sure, even if the pace of factory sector activity did pick up in August, that could have simply reflected firms acting to replenish inventories, and it will take far more than a single month of better data to make a plausible case that the factory sector has turned a corner. For now, though, we'd settle for a month of better data and watching to see where that might lead.
July Construction Spending Tuesday, 9/2 Range: -0.4 to 0.6 percent Median: -0.1 percent	Jun = -0.4%	Down by 0.3 percent.
July Factory Orders Wednesday, 9/3 Range: -2.1 to 0.1 percent Median: -1.4 percent	Jun = -4.8%	Down by 1.3 percent, but that decline is purely a function of civilian aircraft orders having settled back after notably strong months in May and June. Of more relevance, the preliminary data on durable goods orders show a solid 1.1 percent increase in orders for core capital goods that was broadly based amongst the main categories. To be sure, the data on core capital goods orders have been somewhat fickle over the past two-plus years, so for now we won't read too much into the July data. That said, we'd rather be downplaying a solid number than a terrible number.
July Trade Balance Thursday, 9/4 Range: -\$90.0 to -\$59.0 billion Median: -\$78.0 billion	Jun = -\$60.2 billion	Widening to -\$78.6 billion. As we anticipated, the advance data on trade in goods show a spike in imports of goods, which rose by 7.1 percent in July. While imports of gold likely drove the spike in imports of industrial supplies, the unadjusted data show a larger than normal July increase in imports of consumer goods, which likely reflects firms taking advantage of a pause in higher tariffs on imports from China being put into place. The advance data don't offer the same level of detail as the final data, so we'll be better able to break down July's surge in goods imports with this release, which will allow us to assess the implications for Q3 real GDP growth as imports of nonindustrial gold are not included in the GDP data on goods imports.
Q2 Nonfarm Productivity: 2nd estimate Thursday, 9/4 Range: 2.3 to 3.4 percent Median: 2.7 percent SAAR	Q2 1st est. = +2.4% SAAR	Up at an annual rate of 3.1 percent. While growth in Q2 real GDP was revised from 3.0 percent to 3.3 percent (annual rates), the upward revision to growth in real output in the nonfarm business sector was far more substantial, with growth now pegged at an annual rate of 4.4 percent rather than the 3.7 percent rate initially reported. That should yield a meaningful upward revision in the initial estimate of Q2 labor productivity growth, barring a significant revision to the initial estimate of aggregate private sector hours worked.
Q2 Unit Labor Costs: 2nd estimate Thursday, 9/4 Range: 0.7 to 1.8 percent Median: 1.4 percent SAAR	Q2 1st est. = +1.6% SAAR	Up at an annual rate of 0.9 percent, reflecting the upward revision to Q2 productivity growth and what we expect will be a modest downward revision to growth in hourly compensation.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

ECONOMIC PREVIEW

REGIONS

Week of September 1, 2025

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
August ISM Non-Manufacturing Index Thursday, 9/4 Range: 49.8 to 52.5 percent Median: 50.9 percent	Jul = 49.9%	Up to 51.9 percent.
August Nonfarm Employment Friday, 9/5 Range: 0 to 144,000 jobs Median: 75,000 jobs	Jul = +73,000 jobs	Up by 144,000 jobs, with private sector payrolls up by 126,000 jobs and public sector payrolls up by 18,000 jobs. For years and years, we'd preface our discussion of our forecast of August job growth by pointing to what we dubbed "the dreaded August effect," an odd quirk in the data which would see a well-below-consensus initial estimate of August job growth subsequently revised significantly higher. For instance, over the ten years prior to the pandemic, the average first-to-third revision to August job growth was +61,000 jobs. The dreaded August effect came to be widely recognized, such that no one would be particularly bothered by a low initial estimate of August job growth. Those days, however, are long gone, and a low initial estimate of this August's job growth would, for many, be another nail in the coffin of the current expansion, particularly since over the last three years the average first-to-third revision of August job growth was -36,000 jobs. While our above-consensus forecast may suggest we're looking for that pattern to be repeated, it's more a reflection of us trying to make sense of the recent estimates of monthly job growth. While we've for months been pointing to a slowing trend rate of job growth, we see nothing in the not seasonally adjusted data that would support the extent to which and speed with which private sector job growth is reported to have weakened. Our forecast anticipates public sector payrolls having risen in August, reflecting gains in the education segment of state and local governments with an earlier start to the school year in many locations. This segment has, however, been a source of considerable noise in the data over recent months, as seasonal adjustment cannot keep pace with the ever-shifting timing of the school year, none of which has anything to do with underlying labor market conditions. Our only interest in the data on public sector employment will be whether, or to what extent, there were further declines in federal government payrolls, but we continue to expect the most sizable declines to be reflected in the October data. As for private sector payrolls, August is a month in which there is typically not much going on, with the not seasonally adjusted data showing an average increase of less than one-tenth of one percent both pre- and post-pandemic, but each of the past two years saw a 0.1 percent decline. Unadjusted payrolls in leisure and hospitality services and retail trade typically decline in August, but with smaller than normal increases in these sectors over the past few months, this August's declines were likely smaller than normal, opening the door for a boost from seasonal adjustment. At the same time, if unadjusted payrolls in construction and transportation and warehousing services rose by less than in a typical August, which we see as likely, seasonal adjustment will push those increases down. In other words, seasonal adjustment could be pretty much of a wash in the August data. Other things to watch for will be the breadth of hiring across private sector industry groups, which has narrowed considerably over the past several months. Additionally, the revision to the initial estimate of July job growth will be of interest, particularly as we're in the midst of a string of downward revisions to the initial estimates of monthly job growth, as is common in periods in which labor market conditions are softening. To that point, the last month for which the first-to-third revision was positive was last December. But, with a short July survey period and the July establishment survey having seen yet another notably low response rate, the revision to the initial estimate of July job growth could go either way. Even if our above-consensus forecast is on or near the mark, it may not prove to be much of a comfort. Many would likely see an above-consensus print as a downward revision waiting to happen. More significantly, next Tuesday brings the release of the BLS's preliminary estimate of the annual benchmark revision to recent estimates of nonfarm payrolls. Recall that last year the preliminary estimate was that the level of nonfarm employment as of March 2024 would be revised down by 818,000 jobs. **CONTINUED ON PAGE THREE**:

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com

ECONOMIC PREVIEW

REGIONS

Week of September 1, 2025

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
August Nonfarm Employment Friday, 9/5 Range: 0 to 144,000 jobs Median: 75,000 jobs	Jul = +73,000 jobs	**CONTINUED FROM PAGE TWO**: While the final revision was not as harsh, at 598,000 jobs (not seasonally adjusted) it was still equivalent to 0.4 percent of the level of nonfarm employment as of March 2024, considerably greater than the average benchmark revision of 0.1 percent (absolute value) over the prior ten years. The benchmark revision tethers the BLS's monthly establishment survey to the Quarterly Census of Employment and Wages (QCEW), which represents the universe of firms filing payroll tax returns and, as such, covers roughly ninety-five percent of all jobs. Each year, the BLS benchmarks the establishment survey data to the Q1 QCEW data, but given the lengthy lags involved the Q1 2025 data will not be released until September 9, the day on which the BLS announces their preliminary benchmark estimate. Based on the QCEW data through Q4 2024, however, we believe the BLS has continued to overestimate nonfarm job growth. Thus, we look for a sizable downward benchmark revision which, while not as large as last year's, will again be larger than the average estimate. Finally, we've consistently argued that the slowing trend rate of job growth has been just as much of a labor supply story as a labor demand story. Though there is no delineation in the establishment survey data, the household survey data show the foreign born labor force has declined by more than 1.6 million persons over the past four months. Given that this series only comes on a not seasonally adjusted basis, the proper way to look at it over time is to compare intra-year patterns across years. On that basis, the patterns in this series are substantially weaker than the average over the 2015-2019 period and weaker than in any of the past three years. In our 2025 annual outlook we pegged an adverse labor supply shock triggered by an outflow of foreign born labor as a downside risk to our forecast of real GDP growth and an upside risk to our inflation forecast. While perhaps not reaching the threshold of a "shock," we nonetheless think the outflow of foreign born labor has been a material and persistent drag on job growth. And, while at some point the outflows will abate, that will nonetheless leave a sizable hole in the supply of labor that won't be filled in any time soon.
August Manufacturing Employment Friday, 9/5 Range: -10,000 to 2,000 jobs Median: -5,000 jobs	Jul = -11,000 jobs	<u>Up</u> by 2,000 jobs.
August Average Weekly Hours Friday, 9/5 Range: 34.2 to 34.4 hours Median: 34.3 hours	Jul = 34.3 hours	<u>Unchanged</u> at 34.3 hours.
August Average Hourly Earnings Friday, 9/5 Range: 0.2 to 0.4 percent Median: 0.3 percent	Jul = +0.3%	<u>Up</u> by 0.4 percent, for a year-on-year increase of 3.8 percent. Our calls on job growth, hours worked, and hourly earnings would leave aggregate private sector wage and salary earnings up 0.4 percent in June and up 4.9 percent year-on-year.
August Unemployment Rate Friday, 9/5 Range: 4.1 to 4.4 percent Median: 4.3 percent	Jul = 4.2%	<u>Unchanged</u> at 4.2 percent. The outflow of foreign born labor has helped keep a lid on the unemployment rate even as job growth has slowed. Should the August data show another sizable outflow, that could push the unemployment rate down. At the same time, however, we think seasonal adjustment will result in a sizable increase in measured labor force participation amongst younger adults that could push the jobless rate higher. Depending on how these dynamics play out, any reading between 4.1 percent and 4.3 percent won't surprise us.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com