

ECONOMIC PREVIEW



REGIONS

Week of September 15, 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: 4.125 to 4.125 percent

Median Target Range Mid-point: 4.125 percent

Range:

4.25% to 4.50%

Midpoint:

4.375%

In a busy week for economic data releases, all eyes and ears will be on the FOMC meeting. While a twenty-five basis point cut in the Fed funds rate seems all but a given, that leaves plenty of intrigue around the rest of the meeting. Starting with the post-meeting policy statement, the assessment of labor market conditions will almost surely be downgraded from July's "labor market conditions remain solid." Also, while the characterization of inflation as "somewhat elevated" will likely remain the same as July, it will be interesting to see whether the sentiment expressed by some FOMC members of late that the upside risks to inflation have diminished will be acknowledged in the post-meeting policy statement. As for the vote to lower the funds rate by twenty-five basis points, there could be dissents on both sides. With Mr. Miran likely to participate, that could be one vote for a fifty basis point cut and it is possible that either Governor Bowman or Governor Waller, if not both, would also vote for the larger cut given that both favored a funds rate cut at the July FOMC meeting. At the same time, however, it is possible that at least one of the several regional Fed Bank Presidents who continue to stress upside risks to inflation could dissent in favor of holding the funds rate steady.

This week's meeting also brings an updated set of economic and financial projections and an updated dot plot. As for the projections, we've noted that the median forecasts from June have aged well, with the unemployment rate at 4.5 percent and core PCE inflation at 3.1 percent in Q4 2025. As such, those may not change much, if at all. Recall, however, that the June dot plot implied only two twenty-five basis point funds rate cuts by year-end 2025. It could be that enough members see the downside risks to the labor market as having increased to the point that an additional funds rate cut may be incorporated into the 2025 projections. Another question we have is whether, or to what extent, the effects on the labor market of the sizable outflow of foreign born labor will be incorporated into the Committee's deliberations on the appropriate path of the funds rate. After all, if the pronounced slowdown in job growth is as much a labor supply story as it is a labor demand story (as we've argued all along), then no amount of funds rate cuts will change that, while at the same time this outflow poses an upside risk to inflation. This is something Chair Powell will likely be queried on in his post-meeting press conference. More broadly, his assessment of the risks to growth and inflation and what that might mean for the path of the funds rate will be the main focus of the press conference. It does seem that the Committee has become more divided, and while Chair Powell will likely characterize it as healthy debate, the minutes to this week's meeting may shed more light on this.

August Retail Sales: Total

Range: 0.0 to 0.5 percent

Median: 0.3 percent

Tuesday, 9/16

Jul = +0.5%

Up by 0.5 percent. In light of a meaningful upward revision to the initial estimate of June sales and a solid initial print on July sales, it may seem that the bar for August retail sales is set high. For instance, the not seasonally adjusted data show the largest July increase in control group sales in the life of the current series, no doubt helped along by an expanded Amazon Prime Day(s) promotion. As such, one question looming over the August data is the extent to which spending that would have otherwise occurred in August, particularly back-to-school spending, was pulled forward into July. While various spending trackers push back on that notion, our forecast nonetheless anticipates smaller increases in not seasonally adjusted total and control group sales in August than those seen in July, which would be at odds with typical patterns. We also, however, think seasonal adjustment will flatter the August data; we look for the seasonal factor used to adjust August control group sales to not only be less harsh than last August's, but also to be less harsh than this July's, which would also be at odds with typical patterns. One category for which swings in the seasonal factors could make a meaningful difference is nonstore retailers, a category dominated by online sales. Unadjusted sales by nonstore retailers rose by 7.9 percent in July, the largest July increase in the life of the current series, which yielded only a 0.8 percent increase on a seasonally adjusted basis. While it is all but a given that August's increase in unadjusted sales in this category won't come close to matching the July increase, we nonetheless look for the seasonally adjusted data to show a larger increase for August than that seen in the July data. Additionally, we look for changes in goods prices to be, on net, at least mildly supportive of August sales (the

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| August Retail Sales: Total Range: 0.0 to 0.5 percent Median: 0.3 percent | Tuesday, 9/16 | Jul = +0.5% | CONTINUED FROM PAGE ONE: retail sales data are reported in nominal terms). For instance, increases in prices for both new and used motor vehicles will help offset the decline in unit volume (which, by the way, still left unit sales of new vehicles at an annual rate of more than 16 million), which would curb the gap between total and ex-auto sales. Our forecasts for total, ex-auto, and control group sales are all above consensus, which may seem at odds with the marked slowdown in job growth and survey data showing dour consumer moods. Consumer sentiment has indeed been bumping along at notably low levels for some time, but outside of softer demand for discretionary services over part of the summer, it's hard to argue there's been much of a link between sentiment and spending, particularly with demand for discretionary services having firmed up in July and seeming to have strengthened further in August. More fundamentally, to the extent spending has held up better than would be implied by slowing job growth, that would support our contention that slower job growth has been just as much, if not more, of a labor supply story than a labor demand story. We'd argue that were this only a labor demand story, we'd have seen a much more pronounced slowdown in wage growth, and will also note that, far more importantly, growth in total labor earnings continues to easily outpace inflation. It may seem that |
| August Retail Sales: Ex-Auto Range: 0.1 to 0.7 percent Median: 0.4 percent | Tuesday, 9/16 | Jul = +0.3% | <u>Up</u> by 0.6 percent. |
| August Retail Sales: Control Group Range: 0.1 to 0.8 percent Median: 0.4 percent | Tuesday, 9/16 | Jul = +0.5% | <u>Up</u> by 0.7 percent. |
| August Industrial Production Range: -0.6 to 0.4 percent Median: -0.1 percent | Tuesday, 9/16 | Jul = -0.1% | <u>Up</u> by 0.3 percent. Most forecasts of the monthly industrial production data, ours included, rely heavily on the data on aggregate hours worked in the manufacturing, mining, and utilities sectors contained in the monthly employment reports. In this case, however, that may not work out so well. The seasonally adjusted data from the August employment report show sharp declines in aggregate hours worked across the board – manufacturing, mining, and utilities, with a particularly hard hit to durable goods manufacturing. This no doubts accounts for why most forecasters anticipate declines in industrial production. The not seasonally adjusted data, however, tell a markedly different story, with solid increases in aggregate hours worked across the board, including durable goods manufacturing which, in our view, fell victim to unduly harsh seasonal adjustment. This is just one of what we see as many sources of noise in the August employment report, but the question here is which read on aggregate hours worked – seasonally adjusted or not seasonally adjusted – will be reflected in the August industrial production data. To be sure, given that on an unadjusted basis manufacturing and mining output typically rise in August, it could be that this August's increases will be smaller than normal which, as such, will translate into declines in the seasonally adjusted data. If so, then obviously our forecast will be too high, but we see a smaller than normal increase in a slowing economy as being different than an outright decline. This is yet another illustration of why we are so insistent in examining the not seasonally adjusted data across the various data releases. |
| August Capacity Utilization Rate Range: 76.9 to 77.7 percent Median: 77.4 percent | Tuesday, 9/16 | Jul = 77.5% | <u>Up</u> to 77.7 percent. |
| July Business Inventories Range: 0.1 to 0.2 percent Median: 0.2 percent | Tuesday, 9/16 | Jun = +0.2% | We look for total <u>business inventories</u> to be <u>up</u> by 0.2 percent and for total <u>business sales</u> to be <u>up</u> by 1.0 percent. |

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| August Building Permits Range: 1.325 to 1.429 million units Median: 1.370 million units SAAR | Wednesday, 9/17 | Jul = 1.362 million units SAAR | <u>Up</u> to an annual rate of 1.429 million units. On a not seasonally adjusted basis, we look for total permit issuance of 125,000 units, up 2.9 percent from July with a fourth straight monthly decline in single family permits more than offset by an increase in multi-family permits. What should be favorable seasonal adjustment will bolster the headline permits number. Our assessment of market conditions remains the same, i.e., with affordability constraints weighing on demand and many builders sitting on uncomfortably high spec inventories of new homes for sale, builders are paring back on new construction. That set of circumstances creates more opportunity in the multi-family space, which can be seen in multi-family permits and starts firming up – though the monthly data remain typically volatile, the running 12-month totals of not seasonally adjusted multi-family permits and starts have turned higher over recent months. With sizable backlogs of single units already permitted but not yet started and still-elevated inventories of spec homes for sale, the drop in mortgage interest rates seen over recent months may not lead to an immediate boost in single family permit issuance but could at least help stem the decline seen over recent months. |
| August Housing Starts Range: 1.325 to 1.483 million units Median: 1.365 million units SAAR | Wednesday, 9/17 | Jul = 1.428 million units SAAR | <u>Down</u> to an annual rate of 1.387 million units. On a not seasonally adjusted basis, we look for total starts of 121,000 units, down 7.1 percent from July with declines in both single family and multi-family starts. On the multi-family side, that simply reflects some giveback from starts having risen by 12.6 percent in July, continuing a series of double-digit monthly changes. On the single family side, that our forecast anticipates a decline in starts in August reflects the ongoing pullback in reaction to weak demand and elevated spec inventories. As we've noted, however, single family starts have held up better than have single family permits, which we attribute, at least in part, to the sizable backlog of single family units permitted but not yet started. If, as we suspect, a sizable share of these are units that have already been sold, builders would at some point have to begin construction even amid elevated spec inventories. That said, the backlog of single family units awaiting starts has been pared down over the past few months, which could pose some downside risk to our forecast. As it is, our forecast would leave single family starts down 6.4 percent year-on-year. While mortgage interest rates have fallen over recent weeks, that may not have an immediate impact on starts. Moreover, what we don't yet know is whether builders will use lower mortgage rates as an opportunity to pull back on the use of incentives, which builders had been increasingly aggressive with as a means of paring down spec inventories. Given that affordability challenges remain prohibitive for many prospective buyers even with sales incentives, it's more likely that lower mortgage rates will allow builders to hold the line on further incentives and simply run with those already in place. |
| August Leading Economic Index Range: -0.4 to -0.1 percent Median: -0.2 percent | Thursday, 9/18 | Jul = +0.2% | <u>Down</u> by 0.3 percent. |

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