

# ECONOMIC PREVIEW



REGIONS

Week of January 5, 2026

## Indicator/Action

## Economics Survey:

## Last

## Actual:

## Regions' View:

<b>Fed Funds Rate: Target Range Midpoint</b> <i>(After the January 27-28 FOMC meeting):</i> Target Range Mid-point: 3.375 to 3.625 percent Median Target Range Mid-point: 3.625 percent		Range: 3.50% to 3.75% Midpoint: 3.625%	The economic data releases get back into a more normal rhythm this week, capped off by the December employment report (see Page 2). There are still gaps in the data owing to the government shutdown, and it could be some time before we have a full view of Q4 2025 growth. For now, though, we'll take what (data) we can get.
<b>December ISM Manufacturing Index</b> Range: 47.5 to 49.4 percent Median: 48.3 percent	Monday, 1/5	Nov = 48.2%	<u>Up</u> to 49.3 percent. We look for improvement in the three main component indexes – new orders, production, employment – and slower supplier delivery times to push the headline index higher, and favorable seasonal adjustment will be a support. That said, our forecast nonetheless would leave the headline index on the wrong side of the 50.0 percent break between contraction and expansion for the thirty-sixth time in the past thirty-eight months. At some point, however, we expect ISM's results to reflect the solid and broadly based growth seen in the Census data on core capital goods orders over the past several months. Though not entering into the calculation of the headline index, we'll also be watching the prices paid index. While we expect the index to show further increases in input prices, whether the intensity and breadth of input price increases begin to fade will be a key storyline to watch for over the early months of 2026 given the implications for goods price inflation down the line.
<b>December ISM Non-Manufacturing Index</b> Range: 50.9 to 53.1 percent Median: 52.4 percent	Wednesday, 1/7	Nov = 52.6%	<u>Up</u> to 53.1 percent, indicating continued expansion in the broad services sector. As with the ISM Manufacturing Index, we'll be watching the prices paid index, in this case for early signs that boarder services price inflation may begin to ease further.
<b>October Factory Orders</b> Range: -1.4 to -0.8 percent Median: -1.1 percent	Wednesday, 1/7	Sep = +0.2%	<u>Down</u> by 1.4 percent. A sharp decline in orders for civilian aircraft will weigh on durable goods orders, and we also look for a decline in orders for nondurable goods. Of more relevance is that the advance data showed a solid increase in core capital goods orders, which lead the GDP data on business investment in equipment and machinery. We expect this to be affirmed in the final data.
<b>October Trade Balance</b> Range: -\$64.0 to -\$49.7 billion Median: -\$58.5 billion	Thursday, 1/8	Sep = -\$52.8 billion	<u>Narrowing</u> to -\$51.6 billion. The trade data were more volatile over the course of 2025 than has typically been the case, mainly reflecting firms reacting to and trying to stay ahead of the shifting trade policy landscape. The massive spike in imports of nonfood consumer goods in September, seen in both the seasonally adjusted and not seasonally adjusted data, was the most recent example, and we look for much of that spike to be unwound in the October data. There is potential for seasonal adjustment noise in the October data on imports; October typically caps off the holiday season importing rush, but if import volume was softer this October than is typical for the month, as we expect, the seasonally adjusted data will look even weaker, which would in turn hold down the trade deficit. On the other side of the ledger, the not seasonally adjusted data show goods exports perked up in August and September, which in the case of the latter translated into a notably large increase in the seasonally adjusted data. We look for the October data to bring at least some payback. It could be that both imports and exports of goods were firmer in October than our forecast anticipates which, on net, would yield a larger trade deficit than we anticipate. We still, however, expect net exports to be mildly additive to Q4 real GDP growth.
<b>Q3 Nonfarm Labor Productivity</b> Range: 3.0 to 5.6 percent Median: 4.3 percent SAAR	Thursday, 1/8	Q2 = +3.3% SAAR	<u>Up</u> at an annual rate of 5.6 percent. Real output in the nonfarm business sector grew at an annual rate of 5.4 percent in Q3, while aggregate private sector hours worked and hours worked amongst the self-employed declined. Despite the measure of aggregate hours worked in the productivity data tending to work in mysterious ways, the net result should be a jump in labor productivity growth. While the Q3 data are likely to overstate the case, this simply illustrates the inherent volatility in the data from quarter to quarter. Of more relevance is the steady improvement in the eight-quarter moving average of productivity growth, which we see as the most reliable gauge of the underlying trend rate of growth and which we expect to improve further over the next several quarters.
<b>Q3 Unit Labor Costs</b> Range: -1.4 to 1.3 percent Median: 0.5 percent SAAR	Thursday, 1/8	Q2 = +1.0% SAAR	<u>Down</u> at an annual rate of 1.4 percent. While our forecast anticipates another healthy advance in hourly compensation, our forecast rate of productivity growth would be more than enough to push unit labor costs (i.e., the labor costs associated with each unit of output produced) lower. Again, the quarter-to-quarter movements are often overstated, but the improvement in trend productivity growth has helped hold growth in unit labor costs in check more so than slowing growth in hourly compensation.

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<b>December Nonfarm Employment</b> Range: 25,000 to 155,000 jobs Median: 55,000 jobs	Friday, 1/9	Nov = +64,000 jobs	<p><u>Up</u> by 112,000 jobs with private sector payrolls <u>up</u> by 94,000 jobs and public sector payrolls <u>up</u> by 18,000 jobs. After slumping badly over the summer months, private sector hiring firmed up in September and if the gains posted over the past three months don't seem all that impressive, that's because they're not. They are, however, what we're likely to see in the months ahead and, given the pronounced slowdown in labor force growth, should be enough to keep the unemployment rate steady. As for the December employment report, there are a host of factors that could render the report more noise than signal.</p> <p>With the monthly employment reports back, at least for now, on normal cadence, response rates to the BLS's establishment survey could again become an issue. During the government shutdown, establishment survey collection times were effectively extended, which led to initial collection rates of 80.2 percent for the September survey – the highest initial collection rate since December 2019 – and 73.8 percent for the November survey (no rate was reported for October). If we are correct in expecting a significantly lower initial collection rate for the December survey, putting it back in line with post-pandemic norms, that will call into question the initial estimates of nonfarm payrolls, hours, and earnings.</p> <p>Holiday season hiring in retail trade and warehousing and delivery services is another potential source of noise. In any given year, holiday season hiring in these industry groups kicks off in October and ramps up significantly in November, with December left to basically fill in any remaining blanks. This year, however, saw the lowest combined total for October and November hiring in these industry groups since 2009 in the not seasonally adjusted data. This could have reflected low expectations of holiday season sales at a time when payrolls in warehousing and delivery services were being pared down. But, with this year's holiday sales season having gotten off to a surprisingly strong start, it could be that December hiring in these industry groups was stronger than is typical for the month. One needn't look too far back for precedent, as last year saw notably weak October and November hiring only to see the largest December gains in years, which basically salvaged holiday season hiring. While we suspect a similar outcome for December 2025, if we're wrong on this point seasonal adjustment will make hiring in these two industry groups look even weaker.</p> <p>We also see the potential for seasonal adjustment noise in estimates of payrolls in leisure and hospitality services and construction, only in these cases we think this would flatter the estimate of December job growth. Our premise here is that these industry groups will have seen smaller than normal December declines in payrolls on a not seasonally adjusted basis.</p> <p>We're not sure what to expect from the headline job growth print but, as always, the real story of the monthly employment report will be told by the details of the data.</p>
<b>December Manufacturing Employment</b> Range: -10,000 to 2,000 jobs Median: -5,000 jobs	Friday, 1/9	Nov = -5,000 jobs	<u>Up</u> by 2,000 jobs.
<b>December Average Weekly Hours</b> Range: 34.2 to 34.3 hours Median: 34.3 hours	Friday, 1/9	Nov = 34.3 hours	<u>Unchanged</u> at 34.3 hours.
<b>December Average Hourly Earnings</b> Range: 0.1 to 0.4 percent Median: 0.3 percent	Friday, 1/9	Nov = +0.1%	<u>Up</u> by 0.2 percent, for a year-on-year increase of 3.6 percent. Our calls on job growth, hours worked, and hourly earnings would leave aggregate private sector wage and salary earnings up 0.3 percent in December and up 4.5 percent year-on-year.
<b>December Unemployment Rate</b> Range: 4.3 to 4.6 percent Median: 4.5 percent	Friday, 1/9	Nov = 4.6%	<u>Down</u> to 4.4 percent. We think the reported rates for September and November were biased higher by noise in the household survey data and look for some correction in the December data.
<b>September/October Housing Permits-Starts</b> Range: N/A Median: N/A	Friday, 1/9	N/A	Census will release the September and October data on housing permits and starts, along with the related data on completions and units under construction, in one report, filling in gaps left by the government shutdown. The release of the November data, however, has yet to be scheduled by Census.

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