ECONOMIC PREVIEW

REGIONS

Week of February 23, 2026

Indicator/Action Economics Survey:	Last Actual:	Regions' View:
Fed Funds Rate: Target Range Midpoint *(After the March 17-18 FOMC meeting):* Target Range Mid-point: 3.625 to 3.625 percent Median Target Range Mid-point: 3.625 percent	Range: 3.50% to 3.75% Midpoint: 3.625%	It is obviously far too soon to know the full ramifications of the Supreme Court decision striking down the sweeping tariff increases implemented last year. There are numerous alternative avenues the Administration can go down to replace the tariffs struck down by the Court, though there are constraints that vary with the particular route chosen. When all is said and done, it could be that the average effective tariff rate is not too different than where it was prior to the Supreme Court decision, but there could be a window, however brief, between the prior and soon to be tariff regimes in which firms rush to restock inventories in the interim, and that would have impacts on measured real GDP growth. The Supreme Court notably punted on the issue of whether tariff revenues collected under the prior tariff regime will have to be refunded, but this could ruffle the fixed income markets given the already sizable government budget deficits. All of this will be sorted out in time. In terms of the data, a rush of data releases delayed by last year's protracted government shutdown paint a constructive growth picture. While the BEA's first estimate of Q4 GDP, showing annualized Q4 real GDP growth of 1.4 percent, may make it seem like the U.S. economy limped, rather than sprinted, into 2026, we'd disagree with that assessment, as the protracted government shutdown knocked more than a full percentage point off top-line growth. While we accounted for this in our forecast of 1.8 percent growth, it's something many seemed to miss based on the consensus forecast of just at 3.0 percent growth. Real private domestic demand (i.e., combined business and household spending adjusted for price changes), which we see as a more reliable indicator of the health of the U.S. economy, grew at an annual rate of 2.4 percent in Q4 and posted full-year 2025 growth of 2.7 percent, compared to 2.2 percent real GDP growth. The December data on core capital goods orders show another solid increase, suggesting continued growth in business investment in 2026. Additionally, initial claims for unemployment insurance dropped sharply in the week ending February 13, with an even larger decline in not seasonally adjusted claims, lending support to the premise of stabilizing labor market conditions. In another instance of things not necessarily being what they seem, total consumer spending rose by 0.4 percent in December but that increase was entirely driven by rising services spending, as goods spending fell by 0.1 percent, and some are pointing to that decline as a sign of struggles amongst lower-to-middle income households while wealthy households spent freely on services. The problem with that narrative, however, is that seasonal adjustment watered down the December read on control retail sales, a direct input into the BEA's data on goods spending. As we noted in our take on the December retail sales data, the not seasonally adjusted data show the largest December increase in control group sales since 2020, yet that translated into a decline in the seasonally adjusted data. One of those is the actual volume of spending, the other is, unfortunately, what most of the reaction to the data is based on. So, while not dismissing concerns over lower-to-middle income households, actual goods spending was nowhere near as soft as implied in the BEA's data on December consumer spending (which was incorporated into the Q4 GDP data). One issue of concern, however, is that the December read on the PCE Deflator, the FOMC's preferred gauge of price changes, shows both the headline and core PCE deflators rose by 0.4 percent in December, leaving the latter up 3.0 percent year-on-year. Moreover, core goods prices were up 2.0 percent year-on-year, the largest such increase since May 2023, and to the extent there is further tariff pass-through in the months ahead, core goods price inflation will rise further. This reinforces the notion that, even should we see services price disinflation, inflation is poised to remain easily above the FOMC's 2.0 percent target, we think well into 2027. To the extent the growth outlook is firming and the labor market less of a concern, this suggests the FOMC could be on hold for much of the year, consistent with the tone of the minutes of the January FOMC meeting which were released last week.
December Factory Orders Monday, 2/23 Range: -1.5 to 2.0 percent Median: 0.7 percent	Nov = +2.7%	<u>Down</u> by 0.8 percent thanks largely to a decline in the dollar volume of orders for civilian aircraft. The preliminary data on durable goods orders show another solid increase in core capital goods orders in December. With a string of solid advances and growth having become more broadly based, rising orders for core capital goods lay the groundwork for continued growth in business investment in equipment and machinery as measured in the GDP data in 2026.

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

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February Consumer Confidence Tuesday, 2/24 Range: 85.5 to 91.5 Median: 87.8	Jan = 84.5	<u>Up</u> to 90.2 but of more importance to us is whether consumers' assessments of labor market condition, which have dimmed considerably over recent months, improved in February amid signs of stabilizing labor market conditions.
January Producer Price Index Friday, 2/27 Range: 0.1 to 0.6 percent Median: 0.3 percent	Dec = +0.5%	<u>Up</u> by 0.4 percent, yielding a year-on-year increase of 2.7 percent.
January Producer Price Index: Core Friday, 2/27 Range: 0.1 to 0.5 percent Median: 0.4 percent	Dec = +0.7%	<u>Up</u> by 0.5 percent, which would translate into a year-on-year increase of 3.2 percent.
November/December Construction Spending Friday, 2/27 Range: N/A Median: N/A	Oct = +0.5%	Census will release both the November and December data on construction spending on February 27.

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