

ECONOMIC PREVIEW



REGIONS

Week of March 2, 2026

Indicator/Action

Economics Survey:

Last

Actual:

Regions' View:

<p>Fed Funds Rate: Target Range Midpoint <i>(After the March 17-18 FOMC meeting):</i> Target Range Mid-point: 3.625 to 3625 percent Median Target Range Mid-point: 3.625 percent</p>	<p>Range: 3.50% to 3.75% Midpoint: 3.625%</p>	<p>Amid signs of firming growth and persistent inflation pressures, it is a bit unsettling to see yields on 10-year U.S. Treasury notes having slipped below four percent. That they have done so, however, reflects a widening “risk off” sentiment amid growing concerns over credit quality, the impact of AI on the labor market, and heightened geo-political tensions. To be sure, these factors pose threats to the growth outlook, and concerns over valuations having run too far too fast could be amplifying moves out of risk assets. How, and when, all of this plays out remains to be seen, but we could be in for a period of greater volatility in both equity prices and fixed income yields in the interim.</p>
<p>February ISM Manufacturing Index Monday, 3/2 Range: 49.8 to 53.5 percent Median: 51.7 percent</p>	<p>Jan = 52.6%</p>	<p><u>Down</u> to 51.4 percent. Many were quick to dismiss January’s headline print on the grounds that start-of-the-year ordering/restocking led to a one-off jump that would not be sustained. Put differently, many saw the jump in the ISM’s headline index in January as more noise than signal, particularly given that last January’s push above the 50.0 percent break between contraction and expansion quickly reversed. We’ll take the other side of that argument. In our view, that the headline index rose above the 50.0 percent threshold in January puts the ISM’s gauge of factory sector activity more in line with where other measures, such as the S&P Global PMI and core capital goods orders, have been for the past several months. As such, in contrast to last year, we think the ISM’s headline index will remain above the 50.0 percent threshold in the months ahead. That we see the headline index settling back a bit in February is in part our sense that start-of-the year ordering did contribute to the jump in the new orders index, which in January rose to its highest point since February 2022, and also accounts for what will be less favorable seasonal adjustment factors than those seen in January. More fundamentally, we have for some time been pointing to building momentum in core capital goods orders, with orders growth not only strengthening but also becoming more broadly based, and we saw it as only a matter of time before the increasing pace of manufacturing activity reflected in the data on core capital goods orders would be picked up in the ISM’s survey. Another place where we’ve seen building momentum in factory sector activity is in imports of raw materials and intermediate goods used in U.S. factories in the production of final goods. A point that, unfortunately, is almost always lost in the discussion of imports is that these two components typically account for roughly one-half of all imports that come into the U.S, but over the past several months that share has risen steadily and as of December was higher than at any point since 2012. To us, this is a clear sign of building momentum in the factory sector (that such imports count as a drag on real GDP growth is an obvious flaw of GDP accounting).</p> <p>Though not entering into the calculation of the headline index, the prices paid index remains worth watching. Recall that the prices paid index spiked in 2025, in part reflecting higher tariff costs, and while the index had fallen back a bit by year-end 2025, it nonetheless remains firmly above the 50.0 percent mark, indicating sustained and broadly based upward pressure on input prices. This can be taken as another sign of activity in the manufacturing sector gathering pace, not only here in the U.S. but also abroad.</p> <p>As to our forecast of the February data, we do look for the indexes of new orders and production to settle back a bit from their January readings, owing in part to less favorable seasonal adjustment, but look for the inventories index to push higher, which will support the headline index. One wild card will be the index of supplier delivery times. To the extent unusually harsh winter weather across much of the U.S. impaired deliveries and thus pushes the index of delivery times higher, that would support the headline index, as slower delivery times are taken as a sign of rising demand, but would say nothing about underlying conditions. This is one reason we always use a composite of the new orders, production, and employment indexes as a check against the broader headline index, and the gap between the two in the February data will be a sign as to the extent of any weather effects.</p>
<p>February ISM Non-Manufacturing Index Wednesday, 3/4 Range: 52.0 to 54.2 percent Median: 53.5 percent</p>	<p>Jan = 53.8%</p>	<p><u>Down</u> to 53.4 percent, consistent with continued steady expansion in the broad services sector.</p>

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Q4 Nonfarm Labor Productivity Range: 1.3 to 2.2 percent Median: 1.7 percent SAAR	Thursday, 3/5	Q3 = +4.9% SAAR	<u>Up</u> at an annual rate of 1.7 percent. Real nonfarm business output grew at an annual rate of 2.6 percent in Q4, easily topping real GDP growth but lagging the better than five percent (annualized) growth in real nonfarm business output seen over the middle two quarters of 2025. While aggregate private sector hours worked rose at an annual rate of 0.75 percent in Q4, the lack of October data leaves some question as to growth in aggregate hours worked amongst the self-employed. While a sub-two percent headline print may seem at odds with our premise of an accelerating productivity growth, we'll simply note that the productivity data are inherently volatile on a sequential basis, and continued solid growth in business investment in equipment and machinery and intellectual property products, the bulk of which consists of R&D and computer software, suggests that the acceleration in productivity growth has much longer to run, even if at an uneven pace.
Q4 Unit Labor Costs Range: 1.7 to 2.5 percent Median: 2.1 percent SAAR	Thursday, 3/5	Q3 = -1.9% SAAR	<u>Up</u> at an annual rate of 1.9 percent.
January Retail Sales: Total Range: -0.8 to 0.5 percent Median: -0.3 percent	Friday, 3/6	Dec = 0.0%	<u>Down</u> by 0.2 percent. The soft headline print on the report on December retail sales was taken by many as a sign of floundering U.S. consumers, and any such concerns are unlikely to be alleviated by the headline print on the January report. Which is a good reason to go beyond the headline numbers and look to the details that lie beneath. For instance, we weren't at all troubled by the report on December retail sales, as the not seasonally adjusted data show the largest December increases in total and control group retail sales since 2020; that those gains were washed away by seasonal adjustment has no economic relevance. As for the January data, there are numerous indications of spending having been disrupted by Winter Storm Fern, which simply adds to the not so subtle irony of a winter storm being named "Fern." But we digress . . . Many of the categories in which the effects of Fern were the most pronounced – motor vehicles, gasoline, dining out – are not included in control retail sales. This helps square our forecast of a decline in top-line sales coupled with a healthy increase in control group sales, particularly with our forecast anticipating a sizable increase in sales by nonstore retailers. It is worth noting that sales at building materials stores, also not included in control group sales, were likely bolstered by unusually harsh winter weather in January. We'll also note that our forecast anticipates somewhat more favorable seasonal adjustment for control retail sales this January than last, which plays into the extent to which our forecast is above the consensus forecast. That said, it could be that this January's decline in not seasonally adjusted control group sales was larger than is typical for the month (the average January decline is more than twenty percent) given how robust unadjusted December control sales were. If so, then our forecast of the increase in seasonally adjusted control sales is likely too ambitious. Further, don't overlook the impact of rising goods prices, as the retail sales data are reported in nominal terms. The January CPI data show prices for core (non-food, non-energy) consumer goods excluding used motor vehicles posting their largest monthly increase in three years and, absent the distortions triggered by the pandemic, January's over-the-year percentage change would be the largest such increase since 2012. To the extent this reflects tariff pass-through and there is more such pass-through to come in the months ahead, rising core goods prices could be a persistent source of inflation pressure.
January Retail Sales: Ex-Auto Range: -0.4 to 0.7 percent Median: 0.0 percent	Friday, 3/6	Dec = 0.0%	<u>Unchanged.</u>
January Retail Sales: Control Group Range: -0.2 to 1.1 percent Median: 0.2 percent	Friday, 3/6	Dec = -0.1%	<u>Up</u> by 0.6 percent.
December Business Inventories Range: 0.1 to 0.3 percent Median: 0.1 percent	Friday, 3/6	Nov = +0.1%	We look for total <u>business inventories</u> to be <u>up</u> by 0.1 percent, and we look for total <u>business sales</u> to be <u>up</u> by 0.5 percent.

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February Nonfarm Employment Range: 10,000 to 104,000 jobs Median: 60,000 jobs	Friday, 3/6	Jan = +130,000 jobs	<p><u>Up</u> by 104,000 jobs with private sector payrolls <u>up</u> by 88,000 jobs and public sector payrolls <u>up</u> by 16,000 jobs. While virtually no one, us included, saw the reported January increase of 172,000 jobs in private sector payrolls as being indicative of the true state of the labor market, we do think that the labor market has firmed. The February employment report, however, may not provide all that much clarity around the extent to which that may be the case. An early end to the February establishment survey period, which cut off prior to mid-month, could bias both job growth and average hourly earnings lower. At the same time, after the BLS's revised "birth-death" methodology yielded a sizable increase in the estimate of private sector job growth in January, we think that will be mostly reversed in the February estimate. Finally, though Winter Storm Fern hit in late January, the after-effects lingered into early February, which could weigh on job counts and/or hours worked across a number of industry groups, including construction and transportation/warehousing services. As such, our call on private sector job growth may be too aggressive, though we do look for an increase in state/local government payrolls to increase after a larger January decline in not seasonally adjusted payrolls in this segment than is typical for the month. We'll also be eyeing the response rate to the February establishment survey after what was the highest January response rate since 2021, as well as the one-month hiring diffusion index, a measure of the breadth of job growth across private sector industry groups. Note that the index averaged below forty-nine percent for 2025 as a whole but has been easily above fifty percent in each of the past three months. This coincides with what other indicators suggest were stabilizing labor market conditions as 2025 drew to a close and which continued into 2026. That remains our take on the labor market though, again, we're not sure how much the February employment report will help in assessing whether that is the case.</p>
February Manufacturing Employment Range: -5,000 to 3,000 jobs Median: -4,000 jobs	Friday, 3/6	Jan = +5,000 jobs	<p><u>Up</u> by 3,000 jobs.</p>
February Average Weekly Hours Range: 34.2 to 34.3 hours Median: 34.3 hours	Friday, 3/6	Jan = 34.3 hours	<p><u>Unchanged</u> at 34.3 hours.</p>
February Average Hourly Earnings Range: 0.1 to 0.3 percent Median: 0.3 percent	Friday, 3/6	Jan = +0.4%	<p><u>Up</u> by 0.1 percent, for a year-on-year increase of 3.5 percent. Our calls on job growth, hours worked, and hourly earnings would leave aggregate private sector wage and salary earnings up 0.2 percent in February and up 4.3 percent year-on-year.</p>
February Unemployment Rate Range: 4.2 to 4.4 percent Median: 4.3 percent	Friday, 3/6	Jan = 4.3%	<p><u>Down</u> to 4.2 percent. Note that the February household survey data will incorporate revised population controls consistent with the Census Bureau's recent release of the 2025 vintage population data, which showed a dramatic deceleration in population growth due to significantly reduced net international in-migration. While this happens each year, the adjusted population controls are usually incorporated into the January data, but that process was delayed due to last fall's extended government shutdown. BLS will, however, revise the January 2026 data to be more consistent with the new population controls. All of which injects considerable uncertainty around the results reported for February. Regardless of whether it materializes in the data for January or February, we expect the revised population controls to yield a sizable decline in the reported size of the labor force due to the pronounced slowdown in net international in-migration. Second, while the ratios reported in the household survey, such as the labor force participation rate, the employment-to-population ratio, and the unemployment rate, do not tend to be impacted by updates to the population controls, this year could prove an exception. Indeed, given the significant decline in the size of the foreign born labor force in 2025, which we consistently pointed to as a primary culprit behind the slowing pace of job growth, we think the updated population controls could yield a lower unemployment rate but, again, this could turn up in the revised January data. Clearly, there will be a lot to sort through with the household survey data, and it could be that with the revised population controls, the "breakeven" pace of monthly job growth could be even lower than where – around 40,000 jobs per month – we now think it is.</p>

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