



*This Economic Outlook may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information, which is believed to be reliable and on past, current, and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Outlook. The Contents of this Economic Outlook reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Outlook or with respect to any results arising therefrom. The Contents of this Economic Outlook shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.*

## While ~~You~~ We Were Out . . .

When, on the day the Bureau of Economic Analysis (BEA) releases the latest batch of GDP data, you find yourself atop a horse out on a trail in the middle of the Blue Ridge Mountains, you quickly realize that the horse doesn't particularly care whether real GDP contracted at a five percent rate, expanded at a five percent rate, or fell somewhere in between in the most recent quarter. You also quickly realize that while, unlike the horse, you do care how real GDP fared, you're just not going to find out as long as you're atop a horse out on a trail in the middle of the Blue Ridge Mountains given the lack of cell service. Once you come to terms with that, you can focus on the more immediate matters at hand, such as your horse becoming spooked by a few random elk out on the trails (none of whom, for record, seemed all that concerned with the latest GDP data) or deciding that it'd like to lay down in the water and cool off as you're attempting to guide it across a river.

Of course, just as you're coming to truly appreciate being blissfully disconnected from cell phones and the worldwide web and to savor the joyful silence that comes with not having to listen to the not so joyful noise of talking heads screaming at each other on financial talk TV, it's time to head back to reality. In our case, that means catching up with all of the data, GDP and the rest of it, that piled up while we were off the grid. As part of that effort, this month's *Outlook* will focus on some of the key data releases and what they tell us about the state of the U.S. economy. On a related point, with Census having recently put out a series of double shots of data on residential construction, new home sales, and total construction outlays in which the data for February and March were combined into single releases, the economic data are now back on a regular cadence with the disruptions triggered by last fall's federal government shutdown finally in the rearview mirror. To be sure, more cynical sorts might add "at least until the next shutdown" but we'd never take such a gratuitous dig. Oops.

As for that GDP data of seemingly so little concern to the wildlife, BEA's first estimate pegs Q1 real GDP growth at an annual rate of 2.0 percent, shy of what our forecast anticipated but it helps to recall that in any given quarter BEA's initial estimate of GDP is based on highly incomplete source data and, as such, prone to sizable revision. To that point, at the time they printed their initial estimate of Q1 GDP, BEA was lacking March data on international trade, new home sales, total construction outlays, and business inventories. As more complete source data arrive, and prior estimates of individual data points are revised, the initial estimate of Q1 GDP will also be revised. As the data now stand, however, real private domestic demand (combined business and household spending adjusted for price changes) is shown to have grown at an annual rate of 2.5 percent in Q1. We consistently point to real private domestic demand as the more reliable gauge of the underlying health of the U.S. economy, as what tend to be sharp

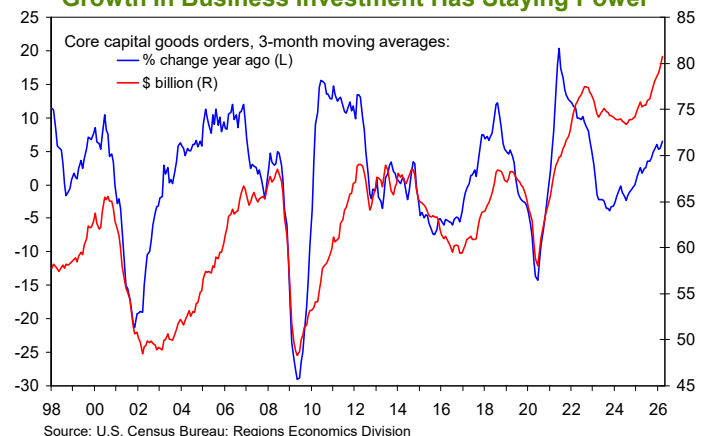
quarterly swings in net exports and business inventories often sway the headline GDP growth print.

While it is not surprising that growth in real private domestic demand outpaced real GDP growth, what does stand out is the extent to which it was business fixed investment, rather than consumer spending, that drove growth in private domestic demand in Q1. Real business fixed investment grew at an annual rate of 10.4 percent in Q1, a pace made even more impressive in light of real business spending on structures contracting at a 6.7 percent rate. Adjusted for price changes, business outlays on equipment and machinery grew at a 17.2 percent rate in Q1 while business outlays on intellectual property products, the bulk of which consists of computer software and R&D outlays, grew at a 13.0 percent rate, with the former adding 0.88 percentage points to top-line real GDP growth and the latter adding 0.70 percentage points. Moreover, data released subsequent to the report on Q1 GDP suggest growth in equipment spending could be revised higher in BEA's second pass at Q1 GDP.

Investment related to AI was a powerful support for the growth in business investment seen in the GDP data. Real spending on information processing equipment grew at an annual rate of 43.4 percent in Q1 while real spending on communication equipment grew at an annual rate of 38.5 percent, following up on annualized growth of 37.0 percent and 39.3 percent, respectively, in Q4 2025. That said, we've noted that growth in business investment in equipment and machinery has become more broadly based over recent months, in part thanks to the more favorable tax treatment resulting from last summer's changes to the tax code.



### Growth In Business Investment Has Staying Power



As seen in the above chart, there is reason to think growth in business investment in equipment and machinery will prove to be quite durable. Core capital goods orders, i.e., nondefense capital

goods excluding aircraft and parts, are an early indicator of the GDP data on business investment in equipment and machinery; while it is the data on shipments that enter into the GDP data, orders are a leading indicator of shipments. While the pace of growth seen in Q1 is not sustainable, we anticipate steady, solid growth over the next several quarters. It is also worth noting that while AI investment is also contributing to growth in spending on intellectual property products, growth in this category has been on a firm upward trajectory going back to the mid-2010s. This squares with our view that the acceleration in productivity growth currently underway actually dates back to the second half of 2017, before the pandemic led to distortions in the data that took years to resolve, as business spending on intellectual property products is a harbinger of trends in labor productivity growth. We continue to argue that faster productivity growth is a necessary offset to what is likely to remain listless labor supply growth, and this will remain a catalyst for growth in business investment spending.

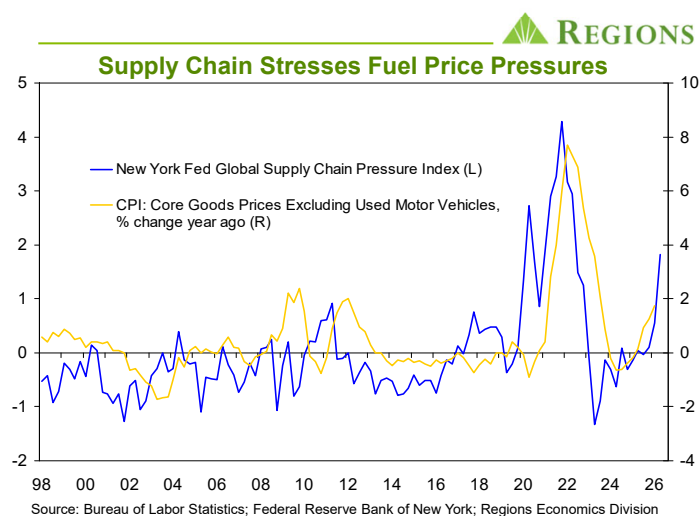
In contrast to business investment, growth in real consumer spending slowed somewhat in Q1. Annualized growth of 1.6 percent was more than accounted for by growth in spending on services, as real spending on goods contracted despite growth in nominal spending (i.e., measured at current prices) on goods having accelerated sharply. Nominal goods spending rose at an annual rate of 5.2 percent in Q1 after having risen at a 2.3 percent rate in Q4 2025. That real goods spending contracted while growth in nominal goods spending accelerated so sharply reflects the pace at which goods prices rose during Q1. While this in part reflects the steep increases in energy prices seen during March, it also reflects the extent to which tariff pass-through has pushed prices for core (non-food, non-energy) consumer goods higher, with the core PCE Price Deflator rising at an annual rate of 4.4 percent in Q1 after having risen at a 4.6 percent rate in Q4 2025.

The PCE Deflator's measure of core goods prices rose at an annual rate of 4.9 percent in Q1. While other factors played a part, this at least suggests that we were correct in expecting more aggressive tariff pass-through in the early months of 2026. Either way, the combination of faster goods price inflation and sharply higher energy prices poses downside risk to growth in consumer spending going forward. One offset in Q1 was a sharp acceleration in disposable (after-tax) personal income growth, fueled in part by meaningfully larger income tax refunds than seen in 2025, another byproduct of last summer's changes to the tax code. We and most others expected this tax refund windfall to be a strong support for growth in consumer spending over 1H 2026, and while still a support, the strength of that support has been eroded by steeper than expected price increases. One way to think about it is that higher prices mean consumers have to spend more just to keep pace, leaving less room for growth in real spending. The longer energy prices remain elevated, the less support for growth in real spending to be had from larger income tax refunds, which is particularly true in light of accelerating core goods price inflation.

Indeed, we may have already seen the effects of higher prices for energy and core consumer goods spilling over into other areas of consumer spending. For instance, our proxy for discretionary services spending – household spending on services excluding housing and utilities, health care, and financial services – shows such spending contracted in Q1 after adjusting for price changes, but at the same time growth in this measure slowed on a nominal

basis in Q1 despite higher prices for these discretionary services. This could be a sign that not only are higher energy prices weighing on discretionary spending for some households but also that growing anxiety over rising prices has left other households less willing to engage in discretionary spending.

To be sure, we've consistently pointed to supports for consumer spending, despite higher prices diluting the support from larger income tax refunds/lower tax withholdings. Even when job growth had slowed to a virtual crawl, growth in aggregate labor earnings continued to outpace inflation, while monthly debt service burdens remain low by historical standards and household balances remain in solid condition. As such, our base case remains that we'll see steady growth in real consumer spending, though at a slower pace than seen in 2025, but elevated energy prices and further acceleration in core goods price inflation will continue to loom as downside risks. While a resolution of the conflict in the Middle East would alleviate energy price pressures, how such a resolution looks and when it might come remain unclear at this point in time.

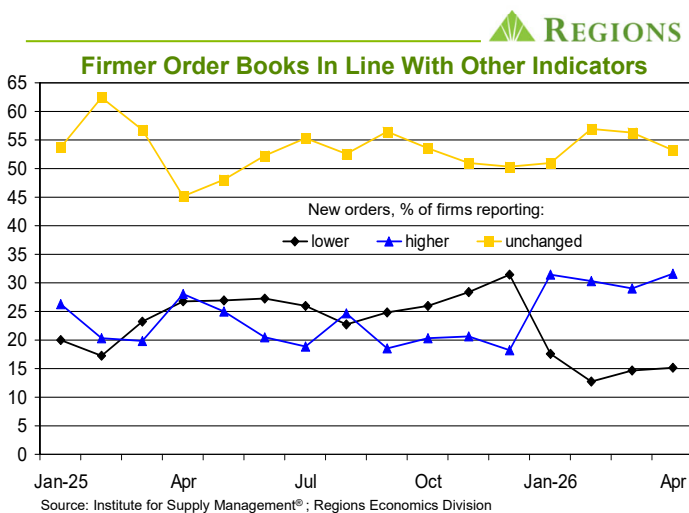


In the interim, the risk is that higher energy prices ultimately spill over into core inflation in the form of higher costs of producing and shipping goods. At the same time, that the Strait of Hormuz is not only a shipping channel for energy but also for industrial and consumer goods opens additional avenues through which the conflict in the Middle East can intensify upward pressure on goods prices. The chart above is one we have not used since early-2023, when the pandemic related supply chain disruptions had finally cleared, but which merits renewed attention given the sharp movement in the New York Fed's measure of supply chain stresses (in simple terms, the higher the index, the greater the disruptions in global supply chains) since the start of the conflict. Note that prices of core goods excluding used motor vehicles had already turned higher, reflecting the effects of higher tariffs, well before supply chains came under renewed pressures.

To the extent they persist, these supply chain pressures could be reflected in further acceleration in core goods price inflation, and it is possible that we're already seeing the early stages of such a transition in the monthly purchasing manager surveys, such as those conducted by the Institute for Supply Management (ISM) and S&P Global. For instance, the prices paid index, a gauge of changes in input prices, in the ISM Manufacturing Index jumped

to 78.3 percent in March before rising further still to 84.6 percent in April, the highest reading since April 2022, and has risen by over twenty-five percentage points over the past three months. We pay considerable attention to the firm level details in the ISM's surveys, and in the April survey 70.3 percent of firms reported paying higher input prices, up from 59.4 percent in March. Keep in mind, though, that the prices paid index had for some time been signaling persistent and broadly based upward pressures on input prices before the start of the conflict in the Middle East, meaning that the conflict has intensified what were already well-entrenched price pressures. The ISM's survey of the broad services sector tells a similar story, i.e., firmly entrenched price pressures kicking into a higher gear as a result of the conflict in the Middle East.

Thus far, however, supply chain disruptions and higher prices for energy and other inputs have not derailed the nascent rebound in the manufacturing sector. The ISM Manufacturing Index held at 52.7 percent in April, the fourth straight month in which the ISM's headline index was on the right side of the 50.0 percent break between contraction and expansion, though as we've noted the turnaround in the ISM's index lagged other indicators, particularly core capital goods orders, which had already been signaling better conditions in the manufacturing sector. By the end of 2025, firms had learned to if not love then at least navigate dramatic shifts in the trade policy landscape amid an improving outlook for growth, both in the U.S. and abroad.

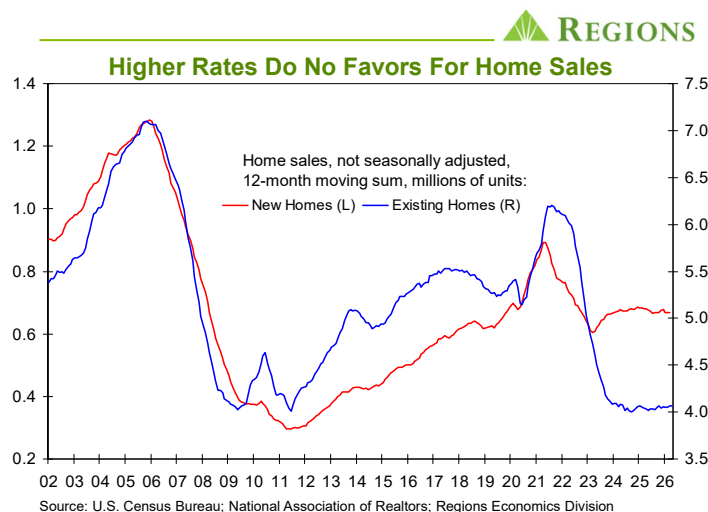


The conflict in the Middle East, however, poses new hurdles for the manufacturing sector but the ISM's April survey suggests that those hurdles are surmountable, at least for now. Going back to the firm level data, the April survey shows no signs of deterioration in order books, while at the same time firms again reported larger backlogs of unfilled orders. While this would suggest support for employment and output in the factory sector in the months ahead, the longer the conflict in the Middle East persists the greater the danger that supply chain disruptions and higher input prices bring an abrupt end to the rebound in manufacturing.

In what is the economic equivalent of kicking a man when he's down, the spike in mortgage interest rates seen since the start of the conflict in the Middle East threw another hurdle in the path of an already wobbly housing market. Of course, anyone looking no further than the recently released March data on new single family

construction and sales of new single family homes might come to a different conclusion. For instance, single family housing starts rose to an annual rate of 1.032 million units in March, the fastest pace in over a year; the not seasonally adjusted data, which is what matters to us, show single family starts jumping to 88,900 units in March, up 32.9 percent from February, almost double the typical March increase. At the same time, sales of new single family homes rose to an annual rate of 682,000 units in March, with the not seasonally adjusted data showing an 18.5 percent increase in sales from February which, as with single family starts, is almost double the typical March increase.

While some took the March data as a sign of housing market activity ramping up ahead of the spring sales season, we see the seemingly strong March numbers as nothing more than payback for notably weak activity in January and February. Atypically harsh winter weather across much of the U.S. in both months clearly weighed on construction and sales of single family homes, even allowing for already slow market conditions. For instance, not seasonally adjusted new home sales fell by 14.3 percent in January, and while a decline in sales in the dead of winter may not seem all that surprising, not only was this only the seventh January decline in unadjusted new home sales in the sixty-three year life of the data, but it was also by far the largest January decline in the life of the data. At the same time, the not seasonally adjusted data show construction employment and single family housing starts were weaker this January than is typical for the month. While there was a bit of a rebound in construction and sales of new single family homes in February, that rebound was hampered by adverse weather across much of the country even as mortgage interest rates dipped below six percent by the end of the month.



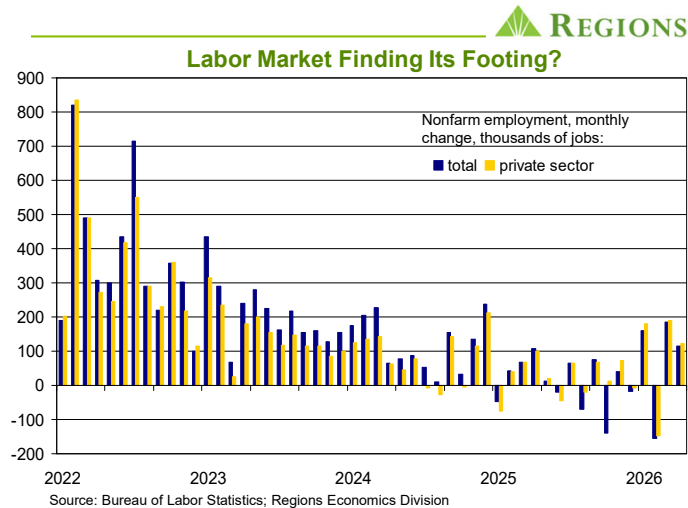
As such, though seemingly strong on the surface, we didn't see the March data as anything special and certainly nothing that would lead us to change our outlook for the housing market. That the seeming strength in March was little more than payback for the weakness in the prior two months can be seen in the above chart. Even with the jump in new home sales in March, the running twelve-month total of not seasonally adjusted sales, which we see as the most reliable gauge of underlying sales trends, is still stuck within the very narrow range that has prevailed for more than two years now. This is, by the way, also true of sales of existing homes.

With mortgage interest rates having risen by more than forty basis points since their February low, there seems little chance of either new or existing home sales breaking out of these unusually narrow ranges any time soon. Where we do see some hope, however, is on the price front. Whether in the form of builders being more generous with sales incentives, including concessions on pricing, or rising inventories and lengthening time on market for existing homes leading sellers to be more flexible on pricing, drops in prices can help offset the impact of higher mortgage rates in terms of affordability. Whether that will be sufficient for either new or existing home sales to break out of their tight ranges remains to be seen, particularly with consumer sentiment at such low levels. Not that there is a strong link between sentiment and spending, but we do think the link is stronger when it comes to larger purchases such as homes. Either way, we thought it worth putting the March data in proper context.

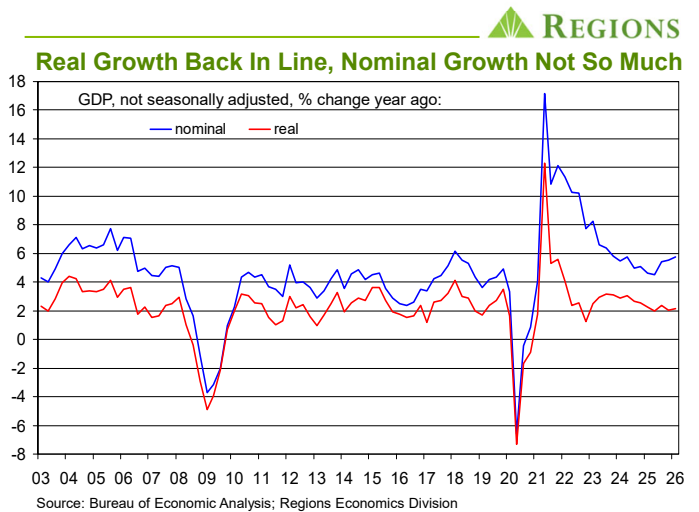
While a batch of strong March prints did not, at least not in our view, change the narrative around the housing market, many are wondering if the narrative around the labor market has changed after job growth topped expectations in both March and April. We think not but, then again, we’ve had a more constructive view of the labor market over the past several months than many others have had, so it’s understandable that what are the first back-to-back monthly increases in total nonfarm employment since April and May of 2025 could feel like a game changer.

April increase in not seasonally adjusted retail trade payrolls in part reflects jobs added after the March survey period, which ended early in the month, ahead of Easter falling so early in April, thus helping account for seasonally adjusted retail trade payrolls rising by 22,000 jobs in April.

To be sure, such twists and turns in the data are standard fare, which is why it’s more useful to look at longer-term patterns. For instance, over the past six months total nonfarm payrolls have risen by an average of 55,000 jobs per month, and while that may not seem all that impressive, it is above what we consider to be sufficient to keep the unemployment rate steady given what we expect will remain anemic labor force growth. To us, this is simply the new labor market normal; there is considerably less turnover in the labor market – hiring, firing, net labor force growth – than has historically been the case, and we continue to point to labor supply constraints as a drag on job growth. And, we’ll make the same point here we’ve made in the prior two *Outlooks*, which is that with such a low trend rate of job growth the typical variability in the estimates of the change in nonfarm payrolls will likely yield negative headline prints more often than has historically been the case. This puts us at odds with those for whom the narrative of the labor market changes with each headline print on the monthly employment reports.



Total nonfarm payrolls rose by 115,000 jobs in April, right on top of the 114,000 jobs our forecast anticipated but well ahead of the 65,000 jobs the consensus forecast expected. The prior estimate of job growth in March was revised up to a gain of 185,000 jobs, but at the same time the estimate of February’s decline in nonfarm payrolls was revised to the downside for a second time, with the data now showing a decline of 156,000 jobs. April’s headline job growth was flattered by seasonal adjustment, as the reported increase of 38,000 jobs in warehousing and delivery services stems from the decline in not seasonally adjusted payrolls in this segment being much smaller than the typical April decline. Keep in mind that this segment had seen considerable job losses in prior months, in part reflecting another round of UPS layoffs, which would account for why there were fewer April job losses than is normal in this segment. It’s also likely that what was a stronger



Finally, we think the above chart is a useful way to summarize where the U.S. economy is at present. In light of the series of shocks that have hit the economy over recent years, it is striking that real GDP growth is nonetheless right in line with the trend rate of just over two percent that has prevailed for many years. At the same time, however, that nominal GDP growth remains far above what had been the pre-pandemic norm reflects how intense and persistent inflation pressures have been, with inflation likely to accelerate further in the near term. At present, solid growth in business investment, a labor market that while not firing on all cylinders has at least stabilized, and consumers still willing and able to spend are supporting real GDP growth. The risk, however, is that elevated energy prices and global supply chain disruptions lead firms to pull in the reins on capital spending and pare job counts, while unrelenting price pressures lead consumers to pull back. That combination could easily sink the economy, and while not our base case, we’re certainly mindful of the downside risks.

# ECONOMIC OUTLOOK



May 2026

Q4 '25 (a)	Q1 '26 (p)	Q2 '26 (f)	Q3 '26 (f)	Q4 '26 (f)	Q1 '27 (f)	Q2 '27 (f)	Q3 '27 (f)		2023 (a)	2024 (a)	2025 (a)	2026 (f)	2027 (f)
0.5	2.0	1.9	2.1	2.3	2.5	2.6	2.3	Real GDP <sup>1</sup>	2.9	2.8	2.1	2.1	2.4
1.9	1.6	1.8	2.2	2.3	2.8	2.5	2.5	Real Personal Consumption <sup>1</sup>	2.6	2.9	2.6	2.1	2.5
2.4	10.4	3.6	4.3	3.5	3.6	3.7	3.6	Real Business Fixed Investment <sup>1</sup>	7.3	2.9	4.1	5.3	3.7
4.3	17.2	7.8	7.8	4.6	3.9	4.2	3.6	Equipment <sup>1</sup>	2.9	3.5	8.3	8.9	4.7
5.4	13.0	3.8	5.0	5.0	5.1	5.0	5.0	Intellectual Property and Software <sup>1</sup>	6.2	3.5	5.6	7.5	5.0
-6.5	-6.7	-6.7	-5.9	-3.6	-1.5	-1.3	-0.6	Structures <sup>1</sup>	16.7	1.1	-5.3	-6.2	-2.5
-1.7	-8.0	-0.6	0.6	0.0	1.4	1.1	1.3	Real Residential Fixed Investment <sup>1</sup>	-7.8	3.2	-2.2	-3.6	0.8
-5.6	4.4	-0.5	0.3	1.2	0.9	0.6	0.5	Real Government Expenditures <sup>1</sup>	3.5	3.8	1.1	0.3	0.7
-968.7	-1,067.5	-1,024.6	-1,074.2	-1,108.3	-1,123.5	-1,130.0	-1,145.2	Real Net Exports <sup>2</sup>	-925.2	-1,032.6	-1,090.7	-1,068.7	-1,138.0
925	957	914	922	930	927	934	939	Single Family Housing Starts, ths. of units <sup>3</sup>	947	1,016	942	931	936
398	462	429	432	435	437	439	440	Multi-Family Housing Starts, ths. of units <sup>3</sup>	473	355	415	439	439
0.9	0.4	-0.1	-0.4	-0.5	0.0	0.9	1.7	CoreLogic House Price Index <sup>5</sup>	4.0	4.3	1.7	-0.1	1.2
15.7	15.4	15.9	15.8	15.9	16.1	16.1	16.1	Vehicle Sales, millions of units <sup>3</sup>	15.5	15.9	16.2	15.8	16.1
4.5	4.3	4.3	4.4	4.4	4.3	4.2	4.2	Unemployment Rate, % <sup>4</sup>	3.6	4.0	4.3	4.3	4.2
0.2	0.1	0.2	0.3	0.5	0.5	0.5	0.5	Non-Farm Employment <sup>5</sup>	2.2	1.2	0.5	0.3	0.5
0.0	1.5	-1.6	1.5	2.6	3.7	2.1	2.2	Real Disposable Personal Income <sup>1</sup>	5.7	2.9	1.7	0.7	2.3
3.3	3.3	3.9	3.7	3.2	2.8	2.2	2.1	GDP Price Deflator <sup>5</sup>	3.7	2.5	2.8	3.5	2.3
2.8	3.1	3.9	3.9	3.6	2.9	2.1	1.9	PCE Deflator <sup>5</sup>	3.8	2.6	2.6	3.6	2.2
2.8	2.7	4.0	4.0	3.7	3.4	2.2	2.0	Consumer Price Index <sup>5</sup>	4.1	3.0	2.7	3.6	2.4
2.9	3.1	3.4	3.3	3.2	2.8	2.4	2.4	Core PCE Deflator <sup>5</sup>	4.2	2.9	2.8	3.3	2.5
2.8	2.5	2.9	3.0	3.1	3.1	2.8	2.7	Core Consumer Price Index <sup>5</sup>	4.8	3.4	2.9	2.9	2.8
3.90	3.63	3.63	3.58	3.38	3.38	3.38	3.38	Fed Funds Target Rate Range Mid-Point, % <sup>4</sup>	5.07	5.19	4.25	3.55	3.38
4.10	4.20	4.36	4.35	4.32	4.34	4.36	4.41	10-Year Treasury Note Yield, % <sup>4</sup>	3.96	4.21	4.29	4.31	4.39
6.23	6.11	6.32	6.32	6.28	6.30	6.31	6.35	30-Year Fixed Mortgage, % <sup>4</sup>	6.81	6.72	6.60	6.26	6.34
-2.4	-2.6	-2.8	-2.8	-3.0	-2.9	-3.0	-3.1	Current Account, % of GDP	-3.3	-4.0	-3.6	-2.8	-3.1

a = actual; f = forecast; p = preliminary

Notes: 1 - annualized percentage change 2 - chained 2017 \$ billions 3 - annualized rate 4 - quarterly average 5 - year-over-year percentage change

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203

Richard F. Moody  
Chief Economist

Greg McAtee  
Senior Economist