ECONOMIC UPDATE

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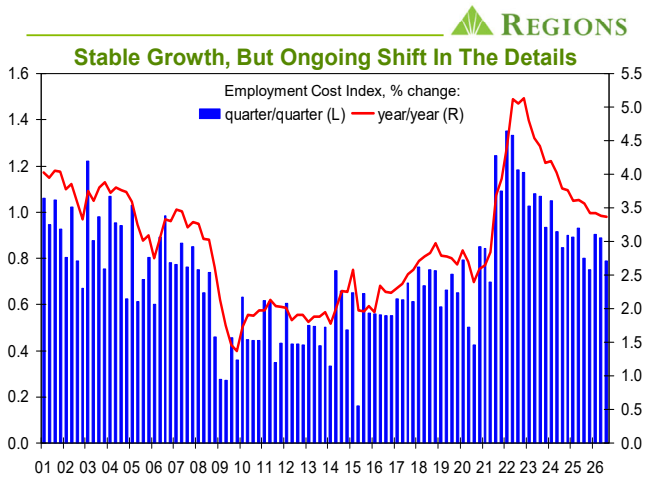
October 30, 2026

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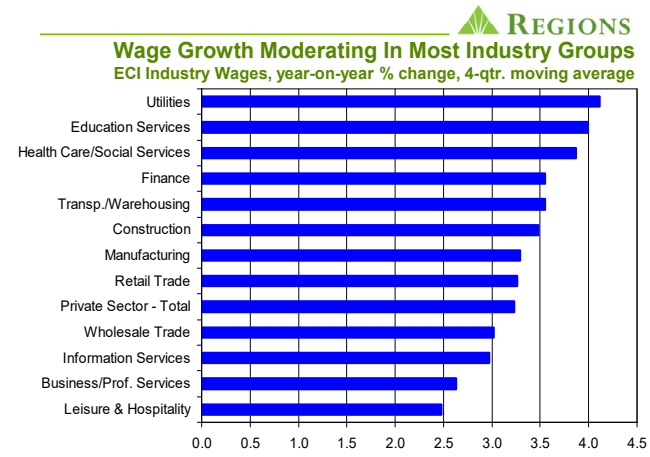
Q3 2026 Employment Cost Index: Stable Growth, But Ongoing Shift In The Details

- The total ECI was up 0.8 percent in Q3 2026, with wages/salaries up 0.7 percent and benefit costs up 0.9 percent.
- As of Q3, the total ECI was up 3.4 percent year-on-year, with wage costs up 3.1 percent and benefit costs up 3.9 percent.

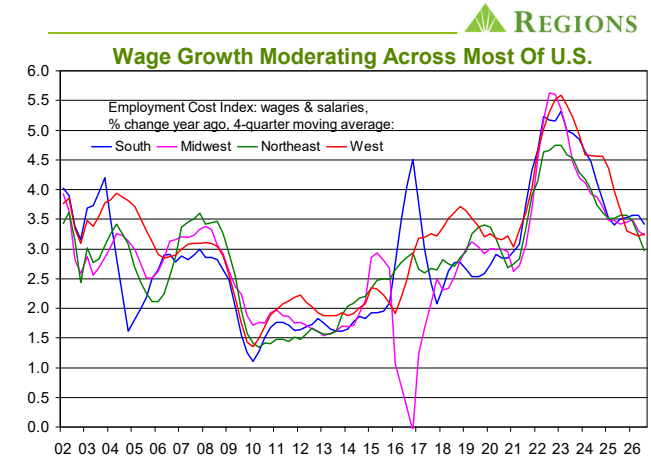
Total compensation costs, as measured by the Employment Cost Index (ECI), rose by 0.8 percent in Q3, matching what we and the consensus forecast expected. The wages/salaries component was up by 0.7 percent, matching our forecast, but the 0.9 percent increase in the component for benefit costs was a touch lighter than we anticipated. On a year-on-year basis, the total ECI is up 3.4 percent, with wages/salaries up 3.1 percent and benefit costs up 3.9 percent. This marks the fourth straight quarter in which the year-on-year change in the total ECI came in at 3.4 percent, but the stability in top-line growth masks on ongoing shift in the underlying details. The 3.1 percent over-the-year increase in wages/salaries is the smallest such increase since Q1 2021, or, right at the start of the post-pandemic acceleration in wage growth. The deceleration in wage growth, however, is being somewhat offset by an ongoing acceleration in benefit costs, thus keeping growth in overall labor compensation costs steady. We do not, however, expect wage growth to continue to moderate over coming quarters, particularly since wage growth is not keeping pace with the ongoing acceleration in productivity growth, which took hold even before the impacts of AI related investment kick in. At the same time, we look for growth in benefit costs, particularly costs for employee health insurance plans, to accelerate meaningfully in 2027. While firms will pass some of that rising cost burden along to their workers, we expect the net effect to be upward pressure on growth in labor compensation costs over coming quarters. It is also worth noting that, as measured by the ECI, wage growth has fallen short of inflation, and while increased hours worked can provide somewhat of an offset, workers in many industry groups are finding their take-home pay is being stretched thinner and thinner. This will, for many households, be a source of continued unease.



The ECI is one of the three main data series – the others being average hourly earnings from the monthly employment report and unit labor costs from the quarterly reports on labor productivity – showing trends in labor costs. The ECI tends to get less attention than its two counterparts but to us is the most meaningful of the three series. The ECI is designed to measure changes in total labor costs, for both money wages and salaries and noncash fringe benefits (such as health insurance) and also includes employer-paid taxes such as Social Security and Medicare. One distinction between the wage component of the ECI and the more widely followed average hourly earnings metric is the ECI is not affected by shifts in the composition of employment across industry groups. Instead, the wage component of the ECI effectively measures wage costs for the same jobs over time and the total ECI measures labor costs (i.e., wages and benefits) for the same jobs over time. One drawback of the average hourly earnings metric is that it is skewed by changes in the composition of employment and hence will mask earnings differentials across industry groups. The ECI is also free of the calendar effects that can, and often do, distort the month-to-month changes in average hourly earnings.



To our point about the ongoing deceleration in wage growth, our middle chart shows wage growth by industry on a four-quarter moving average basis. With the exception of education services, the four-quarter moving average measure of wage growth was flat or down in every other industry group in Q3 than was the case in Q2. In some cases, particularly construction, this simply reflects tougher over-the-year comparisons stemming from faster wage growth in 2025. In other cases, particularly leisure and hospitality services, wage growth has for some time been decelerating after the post-pandemic spike led to significantly above-average wage growth in these industry groups from 2021 through 2023. Still, looking at longer-term trends suggests wage pressures remain most intense in health care and construction, and one can argue that in each instance wage pressures stem from both demand-side and supply-side factors. Wage growth is moderating across geographic regions, as can be seen in our bottom chart. Thus far in 2026, wage growth in the Pacific Division (Alaska, California, Hawaii, Oregon, and Washington) of the West region has topped growth in all other sub-regions. Conversely, wage growth across the Northeast continues to lag overall wage growth by a widening margin.



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

Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com