

# ECONOMIC PREVIEW



REGIONS

Week of May 5, 2025

## Indicator/Action

## Economics Survey:

## Last

## Actual:

## Regions' View:

### Fed Funds Rate: Target Range Midpoint

(After the May 6-7 FOMC meeting):

Target Range Mid-point: 4.375 to 4.375 percent

Median Target Range Mid-point: 4.375 percent

Range:

4.25% to 4.50%

Midpoint:

4.375%

That there are just a few top-tier data releases this week is a welcome respite after last week's barrage of releases. The sheer volume of data releases notwithstanding, it wasn't clear to us that we knew any more about the underlying health of the U.S. economy, let alone where the economy may be going, at the end of last week than we knew at the beginning of last week. With few data releases on tap, the focus this week will be squarely on the FOMC meeting, particularly on Chair Powell's post-meeting press conference given that there will be no changes made to the Fed funds rate at this meeting. Consistent with the point he and other FOMC members have stressed in recent public comments, Chair Powell will reiterate that the Committee remains focused on the risks to the inflation side of their dual mandate, particularly as some Committee members are worrying that inflation expectations may be becoming unanchored due to concerns over the potential impacts of higher tariff rates. Chair Powell will likely point to a better than expected April employment report as evidence that the labor market remains "solid," which will support his contention that the Committee need not be in a hurry to resume cutting the Fed funds rate. This would be one way in which Chair Powell can push back on market pricing of funds rate cut expectations which, even after backing off some in the wake of the April employment report, are still likely out of alignment with the assessments of most FOMC members.

### April ISM Non-Manufacturing Index

Range: 48.9 to 52.2 percent

Median: 50.3 percent

Monday, 5/5

Mar = 50.8%

Down to 50.2 percent. The regional Fed surveys show a slowing pace of expansion in the broad services sector, and we expect that to be reflected in the ISM's survey. We'll be most interested in the new orders and prices paid indexes. In the March survey, the new orders index was barely above the 50.0 percent break between contraction and expansion, and there was a jump in the percentage of firms reporting lower order volumes. With heightened uncertainty over the path of policy and the course of the U.S. economy, it will be interesting to see whether new orders held up in April, and comments from survey respondents along these lines will also be informative. We expect the prices paid index will signal a continuation of the steady upward pressure on input prices that have prevailed for some time, with little to suggest relief from that any time soon.

### March Trade Balance

Range: -\$145.0 to -\$100.0 billion

Median: -\$136.7 billion

Tuesday, 5/6

Feb = -\$147.8 billion

Narrowing to -\$136.7 billion. As we saw in the initial estimate of Q1 GDP, a surge in imports of goods was a major drag on real GDP growth in Q1, with a wider trade deficit knocking 4.83 percentage points off top-line real GDP growth, the largest deduction from trade on record. Manufacturers and retailers pulled import orders forward in anticipation of higher tariff rates, and while cargo volumes held up through much of April, they have since dropped off sharply. Barring a reversal, this sets up net exports to make a sizable contribution to Q2 real GDP growth but, as with the deduction in Q1, we think all of this says more about the quirks of GDP accounting than about underlying economic conditions.

### Q1 Nonfarm Labor Productivity

Range: -1.8 to 1.8 percent

Median: -0.7 percent SAAR

Thursday, 5/8

Q4 2024 = +1.5% SAAR

Down at an annualized rate of 0.7 percent. Real output in the nonfarm business sector contracted at an annualized rate of 0.3 percent in Q1. Aggregate private sector hours worked rose at an annualized rate of 0.6 percent, with much of that growth coming courtesy of an increase in the average length of the workweek in March. At the same time, however, there was a steep decline in aggregate hours worked amongst the self-employed, which will weigh on growth in the overall index of hours worked that factors into the productivity data. Though the productivity data are inherently volatile from one quarter to the next, the underlying trend rate of productivity growth has been accelerating over the past several quarters. If we are corrected in expecting productivity to have dipped in Q1, we'd see that as an interruption in the trend of accelerating productivity growth rather than that trend having come to an end.

### Q1 Unit Labor Costs

Range: 1.7 to 6.2 percent

Median: 5.2 percent SAAR

Thursday, 5/8

Q4 2024 = +2.2% SAAR

Up at an annualized rate of 4.2 percent. The flip side of a contraction in productivity would be a jump in unit labor costs. The data from the monthly employment reports and the Employment Cost Index show slower wage growth in Q1, and we expect that to be the case with the hourly compensation metric in the productivity data. That said, the hourly compensation metric is frequently at odds with other indicators of wage growth, which helps account for the wide variance of forecasts of the change in unit labor costs in Q1.

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