



# Flat Economy in the Early Fall According to Beige Book

## Headlines

- **The U.S. economy was flat in the early fall**, according to the latest Beige Book, with a slight downturn in consumer spending.
- **Employment was flat**, with weak labor demand.
- **Inflation picked up due to passthrough from tariffs.**
- **Conditions were about evenly split across Fed districts between slight expansion, no growth, and modest contraction.**
- **The Beige Book will take on increased importance with the government shutdown.**
- **This Beige Book supports PNC's forecast for a 25 basis point reduction in the fed funds rate at the late-October FOMC meeting.**

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## Details

**The economy was stagnant in September and early October**, according to the latest Beige Book from the Federal Reserve. Consumer spending was down slightly; high-income household purchases remained strong, while lower- and middle-income households faced rising cost pressures. Manufacturers faced challenges from weak demand and tariffs. Activity in agriculture, energy, and transportation was generally softer. Conditions were mixed for financial services and commercial and residential real estate. Sentiment was up in some districts, but others reported continued high uncertainty. The Philadelphia district reported downside risk from the government shutdown.

**Employment was flat in the early fall**, with labor demand soft. More firms reported reducing staffing through layoffs and attrition due to softer demand, uncertainty, and investment in artificial intelligence. Respondents reported more slack in the labor market, making it easier to hire. However, hospitality, agriculture, construction, and manufacturing reported increased hiring difficulties because of changes to immigration policy. Wage growth was modest to moderate, with rising labor cost pressures from higher health insurance costs.

**Several districts reported higher inflation due to tariffs and price increases for business services.** While some firms tried to limit price increases due



to customer pushback, others were able to pass along their higher costs.

**Conditions were mixed across districts.** Three districts reported modest growth: Boston, Philadelphia, and Richmond. Activity was flat in five districts: Cleveland, Atlanta, Chicago, St. Louis, and Dallas. There was a slight softening in four districts: New York, Minneapolis, Kansas City, and San Francisco.

With no government data available because of the shutdown, **anecdotal reports like the Beige Book will play a greater role in the Federal Open Market Committee's monetary policy decisions**, including their meeting at the end of October. This Beige Book reports an economy that is flat in the early fall, weighed down by tariffs, uncertainty, high interest rates, slower labor force growth due to reduced immigration, and the government shutdown.

**This Beige Book is consistent with PNC's forecast for a 25 basis point cut in the fed funds rate at the FOMC's meeting on October 28 and 29.** At the last FOMC meeting, in mid-September, the committee cut the fed funds rate by 25 basis points because of increased concerns about the labor market. The current Beige Book notes continued job market softness, although also the potential for higher inflation from rising tariffs.

PNC's baseline forecast then has additional 25 basis point cuts at the two subsequent FOMC meetings, in mid-December and late January, which would take it to the range of 3.25% to 3.50% by the end of January 2026. But the fed funds outlook is very unsettled right now given the lack of data due to the shutdown and higher-than-usual uncertainty surrounding the U.S. economy.



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