# Beige Book: Modest Growth in Late 2025, Improvement from Mid-Year

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## Headlines

- **U.S. economic growth was modest in late 2025, according to the Fed's Beige Book. Conditions were better than in the summer and fall.**
- **The outlook was modestly optimistic.**
- **Job growth was soft with firms cautious. AI was not a factor in weak hiring.**
- **Inflation was moderate as firms continued to pass their higher tariff costs on to customers.**
- **PNC is forecasting 2% real GDP growth in 2026, with two fed funds rate cuts in the second half of the year.**

## Details

**The U.S. economy was expanding at the end of 2025, according to the latest Beige Book from the Federal Reserve, with slight to modest growth in eight of the 12 Fed districts. This was an improvement from the three previous Beige Books**, when there was little to no growth in more than one-half of districts.

**There was weak growth in consumer spending tied to the holidays**, with the largest gains among high-income households. Low- and middle-income consumers were more reluctant to spend at the end of the year. Vehicle sales were flat to down in most districts.

Manufacturing was mixed, but non-financial services demand was flat to up slightly. Banking was flat to up slightly, with stronger demands for both consumer and commercial loans. Housing markets were generally weaker, however. Agriculture was flat, with energy production flat to down. **The outlook was modestly optimistic.**

**Employment was flat in two-thirds of districts in late 2025**, with rising demand for temporary workers to help control headcounts. Hiring was generally to replace workers who were leaving, rather than for expansion. Some occupations remained in short supply, including engineers, healthcare professionals, and skilled trade workers. Firms were experimenting with artificial intelligence, but the Beige Book reported the impact of AI on hiring as "limited." Firms did expect AI to have a larger impact on the labor market in coming years. Wage growth was at "normal" levels.

**Most districts reported moderate price growth,** with slight growth in two districts. Tariffs were a major concern, and **more respondents reported that they were passing along tariff-related price increases.**

However, retail establishments and restaurants were more reluctant to pass along higher tariff costs due to customer resistance. Firms generally expected reduced price pressures this year.

There was slight economic growth in five districts—Boston, Philadelphia, Cleveland, Atlanta, and Kansas City—with modest growth in Richmond, St. Louis, and San Francisco. Economies were flat in the Chicago, Minneapolis, and Dallas districts. Activity fell slightly in the New York district.

**The economy expanded modestly in late November and December**, according to the Beige Book, with increased activity in more than one-half of districts. This was a change from the late summer and fall, when economies were stagnant in a majority of districts. Consumer spending continued to rise at the end of 2025, although most of the growth was coming from high-income households.

**There was little job growth** as businesses remained cautious about hiring. AI did not appear to be a significant drag on the labor market.

**Price growth was moderate** in most of the nation, with firms more willing to pass along higher tariff costs to customers.

The latest Beige Book, including modest optimism about the near term, is consistent with **PNC's forecast for real GDP growth of around 2% in 2026.** Consumers are generally holding up entering the new year, but there are some signs of stress among lower-income households.

With tariff-related inflation still a concern and modest job gains continuing, **PNC expects the Federal Open Market Committee to keep the fed funds rate unchanged in the first half of 2026.** PNC's forecast is for two cuts of 25 basis points each in late summer and fall, which would bring the fed funds rate down to a range of 3.00% to 3.25% by the end of the year.

## Disclosures

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