

Beige Book: The Economy is Slowing and Economic Uncertainty is Pervasive

- The latest Beige Book indicates that economic activity has slowed since the previous report in April.
- All 12 Districts reported high levels of economic and policy uncertainty.
- Consumer spending reports were varied with some Districts reporting increases in spending on goods that could be impacted by tariffs.
- Employment was little changed since the April report with most Districts describing employment as flat.
- Prices have risen at a moderate pace since the last report although there were widespread reports of contacts expecting costs and prices to rise at a faster rate going forward.
- Responses to the higher costs varied but contacts who plan to pass along tariff-related costs plan to do so within three months.
- PNC expects no change in the fed funds rate until the end of this year.

According to the latest Beige Book from the Federal Reserve, economic activity has “declined slightly since the previous report” in April. Half of the Districts reported “slight to moderate declines in activity,” three Districts reported “no change,” and three Districts reported “slight growth.” All Districts reported “elevated levels of economic and policy uncertainty, which have resulted in hesitancy and a cautious approach to business and household decisions.”

Manufacturing activity “declined slightly.” Consumer spending reports were decidedly mixed, with most Districts reporting “slight declines or no change;” however, some Districts reported “increases in spending on items expected to be affected by tariffs.”

Reports on bank loan demand and capital spending plans were varied. Activity at ports was “robust,” while reports on transportation and warehouse activity in other areas were mixed. In aggregate, the outlook remains “slightly pessimistic and uncertain,” on par with the previous report. However, a few District reports indicate the outlook has “deteriorated” while a few others indicate the outlook has “improved.”

Employment has been “little changed” since the previous report with most Districts describing employment as “flat,” three Districts stated “slight-to-modest increases,” and two Districts reported “slight declines.” Many Districts reported “lower employee turnover rates and more applicants for open positions.” Comments about uncertainty delaying hiring were widespread.

On a more upbeat note, “prices have increased at a moderate rate since the last report” although there were widespread reports of contacts “expecting costs and prices to rise at a faster rate going forward.” Indeed, a

few Districts described these expected cost increases as “strong, significant, or substantial.” All District reports indicated that “higher tariff rates were putting upward pressure on costs and prices.” However, responses to these higher costs varied, including “increasing prices on affected items, increasing prices on all items, reducing profit margins, and adding temporary fees or surcharges.” Contacts that plan to pass along tariff-related costs “expect to do so within three months.” Consequently, consumer inflation could reaccelerate late this summer.

The latest Beige Book portrays an economy that is slowing amid a great deal of policy uncertainty. Consequently, monetary policy remains on hold. The Federal Open Market Committee indicated at its meeting in early May that it will keep the fed funds rate in its current range of 4.25% to 4.50% until there is more clarity on inflation and the labor market. If tariffs remain in place inflation is set to reaccelerate in the near term, and the Fed wants to see if this is only a temporary increase in inflation, or something more permanent. At the same time tariffs are likely to lead to a softening in the labor market. Assuming the tariffs remain in place in the near-term PNC expects no change in the fed funds rate until the end of 2025, when the central bank will start to gradually cut rates. But a permanent halt to the tariffs could lead to a further slowing in inflation and earlier rate cuts.

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