

## Beige Book: Uncertainty Around Tariffs Was Pervasive in Early Spring, Outlook Worsened

- **The overall US economy was flat in March and early April, according to the Beige Book, with growth in some districts and contraction in others. There was much uncertainty surrounding tariffs.**
- **Consumer spending was generally down outside of autos. Business activity was mixed.**
- **Job growth was modest on net, with firms turning more cautious. Wage growth was modest and slowing.**
- **Businesses were preparing for higher prices with tariffs, and most expected to pass their higher costs on to consumers.**
- **Growth will soften in 2025 as tariffs and uncertainty weigh on the US economy.**

According to the latest Beige Book from the Federal Reserve, covering March and early February, the economy was stable. However, the Beige Book states that “uncertainty around international trade policy was pervasive across reports.” The Beige Book also says that “the outlook on several Districts worsened considerably as economic uncertainty, particularly surrounding tariffs, rose.”

Household spending was generally lower, but auto sales increased as consumers rushed to get ahead of potential tariff-induced price increases. Both leisure and business travel spending were down, with several districts reporting reduced international travel.

Home sales were up somewhat even as inventories remained tight. There was a slight increase in commercial real estate activity, coming primarily from the multifamily sector.

Loan demand was flat to up modestly. There was a decline in non-financial services activity in several sectors. Transportation experienced modest growth.

Manufacturing was mixed, with activity flat to down in two-thirds of the districts. There was modest growth in energy activity and agriculture was stable.

Federal government spending cuts and a drop in charitable contributions created gaps in community services.

Employment was little changed, with some districts reporting growth, other reporting no change, and some reporting declines. The softness was most pronounced in the federal government and entities receiving government funding. The Beige Book says that in several districts “firms were taking a wait-and-see approach to employment” until there was more policy certainty. There were also “scattered reports of firms preparing for layoffs.” Overall there was a greater availability of labor. Wage growth was modest, and slowed from the previous Beige Book in multiple districts.

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Inflation was modest in one-half of the 12 districts and moderate in the other six, similar to the previous Beige Book. In most districts “firms expected elevated input cost growth resulting from tariffs,” with many businesses already receiving “notices from suppliers that costs would be increasing.” In addition, “firms reported adding tariff surcharges or shortening pricing horizons to account for uncertain trade policy.” Most firms expected to increase their end prices to pass along higher costs. There were also reports of smaller profit margins with soft demand, especially among consumer-oriented businesses.

The overall US economy treaded water in the late winter and early spring, according to the latest Beige Book, with growth mixed across districts. There was slight growth in five districts (Boston, Richmond, Atlanta, Kansas City, and Dallas), economic activity was flat in three others (Cleveland, Chicago, and St. Louis), and there was modest contraction in the remaining four (New York, Philadelphia, Minneapolis, and San Francisco).

The ever-changing tariff situation was a significant drag. Consumers and businesses were more cautious, although auto sales were up as buyers rushed to get ahead of tariffs. There was also increased pessimism about the economic outlook because of tariffs.

PNC is expecting noticeably slower economic growth through the rest of 2025, but not a recession, as higher tariffs weigh on consumers and businesses. But risks to the downside have increased. The longer the tariffs remain in place, and the larger and broader they are, the higher the probability of recession.

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