Institute for Statistical Policy Analysis

SEPTEMBER BEIGE BOOK RUNDOWN

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TOPLINE: The Federal Reserve's September 2 report on the state of the economy (the Beige Book) showed modest growth and elevated inflation. Given this, a rate hike of 25 basis points seems likely to be announced tomorrow by the Federal Open Market Committee (FOMC), which would mean higher mortgage, car loan, and credit card rates for countless Americans.

Key Points in the Report:

Economy Chugged Along: The economy continued to grow at a modest pace.

- Spending on data centers and defense continued to drive growth in manufacturing, a trend noted in the previous Beige Book (published July 15).
    - Data centers in particular continued fueling non-residential construction, even as residential construction declined this cycle.
- Loan volume increased.
- Crop producers continued to face challenges.
    - This was attributed to low commodity prices, high input prices, and tight credit last cycle.
- Energy prices remain a concern for many, especially as the War in Iran nears the beginning of its eighth month.

Manufacturing and Construction Gains: Employment rose slightly, driven in part by solid gains in the manufacturing and construction sectors.

- Wages grew at a modest pace.
    - As with overall employment numbers, much of this growth in wages was tied to increases in demand for skilled workers in manufacturing and construction.
    - Skilled tradesmen and technical workers remain scarce.
- However, the retail and hospitality sectors showed a notable decrease in employment.
- The effect of artificial intelligence (AI) on the labor market as a whole remains mixed.

Inflation Persists: Prices continued to rise at a moderate pace.

- These price pressures appeared particularly strong in the booming manufacturing and construction sectors.
- Price increases in energy, transportation, and raw materials in particular were noted.
- Manufacturers and retailers continued to highlight tariffs' impact on rising prices.
- Firms noted healthcare and insurance costs as unique pressures.
- Heightened price sensitivity among consumers seems to be pushing more of the burden of price increases onto producers.

Optimism: In August, output and employment continued to grow, which was driven in no small part by gains in the manufacturing and construction sectors. Gains in these sectors are likely a product of the AI boom and its strong demand for data centers.

What This Could Mean for Rates: With a growing economy and elevated inflation, the conditions are ripe for a rate hike tomorrow, with FedWatch placing the odds of such a hike at 93.5% as of yesterday.