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UNITED STATES

Federal Reserve Beige Book gives the greenlight to further rate cuts

We may be lacking official government data, but the Federal Reserve is still working and speaking to contacts throughout the economy. The messages back aren't particularly comforting though, and this will keep the Fed in interest rate cutting mode for the next several months



The latest Beige Book indicates continued weakness in the economy, which should keep the Fed on track with rate cuts

Fed confirms it has seen little sign of improvement

The Federal Reserve isn't directly impacted by the government shutdown, and they have just released their Beige Book report, which is an anecdotal survey on the state of the US economy. It suggests there has been a slight loss of momentum in activity over the past eight weeks, which supports the messaging from Fed Chair Jerome Powell yesterday that the economic situation hasn't improved since the Fed cut rates 25bp on 17 September.

The report suggests that, on balance "economic activity changed little" since the last report, with 3 of 12 Fed districts reporting slight to modest growth, five reporting no change and four reporting a slight softening. This is a loss of momentum relative to the August report, which had indicated 4 of 12 Fed districts reporting "modest growth" with the other eight indicating "little or no change in economic activity". In terms of the jobs market, it was suggested that

“demand for labour was muted across districts and sectors”. The August report had stated 11 of 12 districts reported flat employment with the other one reporting a “modest decline”. More specifically on jobs “in most Districts, more employers reported lowering headcounts through layoffs and attrition, with contacts citing weaker demand, elevated economic uncertainty, and, in some cases, increased investment in artificial intelligence technologies”.

With regard to prices, the August Beige Book indicated all 12 Fed regions saw “moderate or modest” price growth, but in two that growth was less than the rising input cost, suggesting squeezed profit margins. The assessment that corporate profits were bearing the brunt of higher costs was reaffirmed in today's report with “several Districts” indicating that input costs rose at a faster pace than selling prices, with tariffs, insurance, health care and technology all cited as pressure points.

Two rate cuts in 2025 look odds-on, two more in 2026 remains our call

Yesterday, Fed Chair Powell acknowledged the sharp slowing in payrolls, and today Governor Stephen Miran suggested it was becoming even more urgent for the Fed to get rates down to neutral quickly, so this all confirms the Fed is on track to cut rates 25bp at both October and December FOMC meetings even in the absence of key data reports. Markets are pricing those cuts with the potential for a further three 25bp cuts in 2026.

We are fully on board with the view of two further 25bp rate cuts in 2025, but in terms of 2026, economists are becoming a little more split regarding the prospects for additional rate cuts. The positive case for the US economy is that looser financial conditions (lower Fed funds rate, lower Treasury yields and a weaker dollar) plus clarity on trade contributes to a stabilisation in sentiment and results in corporates starting to put money to work again and hiring resumes. In such a scenario, we perhaps get just one further cut as the Fed themselves are currently projecting.

The more negative case is that tariffs start to have more of an economic impact and eventually do squeeze consumer spending power and corporate profits. This contributes to the jobs market losing more momentum and payrolls start to fall outright, with the downside risks compounded by an intensifying housing slowdown with a price correction. In this environment, the Fed cuts rates consistently through early 2026 and moves policy into stimulative territory. For now, our base case remains somewhere between the two, with ING projecting two additional rate cuts in 2026 taking us to 3-3.25% for the Fed funds range.

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