MACRO STRATEGY | Economic Monthly

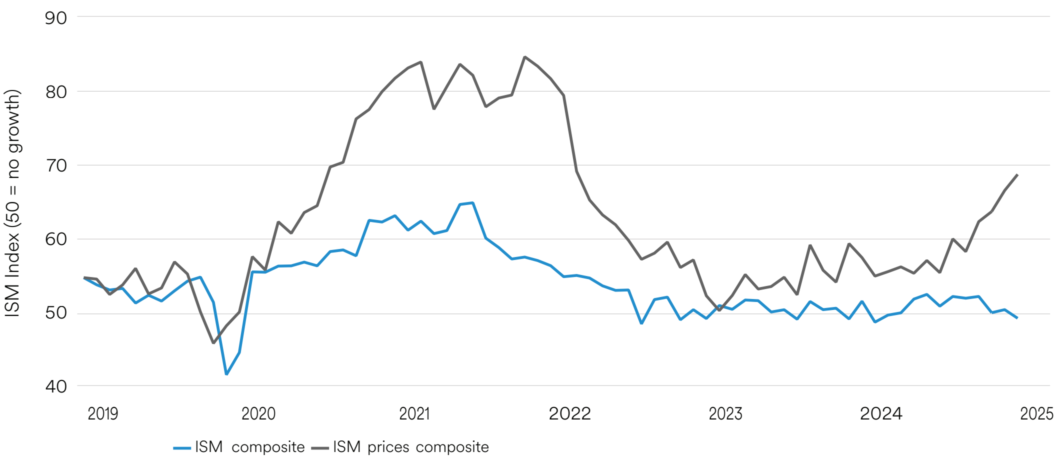
The Beige Book Goes into the Red as U.S. Growth Stalls

June 20, 2025

We remain cautious about the economic outlook. Consumer spending and the labor market remain stable in aggregate, but both qualitative and quantitative indicators related to business output and business uncertainty give us pause. Indices from the Institute of Supply Management (ISM) show weakening activity with rapidly increasing input costs, business investment has stagnated, and comments in the latest Beige Book from the U.S. Federal Reserve noted a decline in activity.

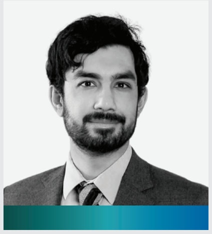
Prolonging the pause in hiring and investment decisions due to uncertainty could push both services and manufacturing sectors into further contraction but, if the current administration is able to execute on trade policy and reduce uncertainty, firms can take action to drive growth.

Chart 1 | Prices Paid Rising Rapidly with Weakening Growth



Note: Composites use a GDP-weighted average of ISM manufacturing and non-manufacturing indices.
Source: Institute for Supply Management (ISM), NBER (National Bureau of Economic Research), U.S. Bureau of Economic Analysis (BEA), MIM. As of 6/16/2025.

Authors



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MetLife Investment Management

Businesses squeezed by weak consumers and strong prices

Our composite ISM index sagged into contraction territory in May, the first time since July 2024.

Over the last seven months, growth in services sectors has been slowing. Recent immigration policies have put additional pressure on services firms and have resulted in a sharp drop in travel exports. The manufacturing recovery has also petered out, with the ISM Manufacturing Index posting consistent declines since January.

At the same time, the ISM prices paid composite index has soared almost as rapidly as in the early days of the most recent bout of inflation. But with a much softer economy, we expect price pass-throughs to consumers to be a much greater struggle.

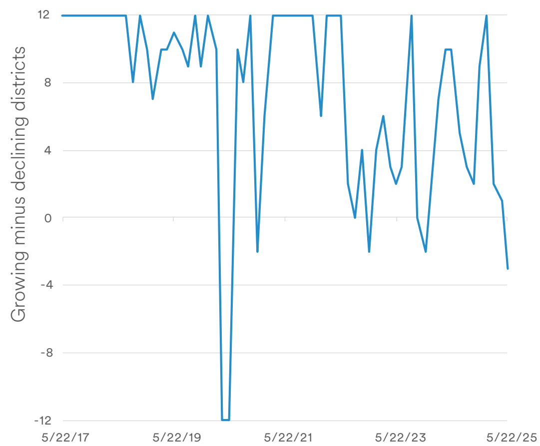
As we move into the second half of the year, we expect the Trump administration to move to pass bills and reach agreements that reduce uncertainty and try to encourage growth – that includes, for example, more trade agreements with other nations and more tax cuts. In this case, firms may be able to start making more hiring and investment decisions in a slightly more certain economic environment. Otherwise, the continued deferral of investment and hiring, combined with the economic stress of tariffs, could push both sectors deeper into contraction.

The Beige Book: Into the Red

Anecdotal evidence from the various regions of the Federal Reserve System shows a material decline in growth. In the most recent Beige Book, six regions noted a decline in economic activity while only three noted growth. This was a sharp turnaround from January when all 12 regions showed growth.

The mood among businesses has become grimmer, with uncertainty and prices – both prices paid and prices received – continuing to be a concern to businesses. While the stock market has shaken off the April 2 tariff announcements, the tariff discussions thus far have not alleviated business worries. Investment and hiring decisions are being delayed while businesses wait for improved visibility on policy.

Chart 2 | Beige Book Shows Economic Weakness



Source: Beige Book, Federal Reserve Board of Governors, Hebbia, MIM. As of June 12, 2025.

Investment is Stagnant

Capital goods orders, a proxy for investment, declined after the 2022 inflation episode and only started to recover beginning in mid-2024. But since January 2025, orders have been on a downward trajectory again owing to caution around tariffs. The latest data from the U.S. Census Bureau shows capital goods orders of $74.7 billion in April, a 1.5% decline compared to March.

Tariffs and canceled government contracts affect both manufacturing and services firms. Even if tariffs are not yet finalized, frequent narrative changes are making it harder for firms to commit to pricing and longer-term contracts, making investment difficult.

Chart 3 | Has Investment Stalled?

Source: U.S. Census Bureau, MIM. As of 6/16/2025.

We expect May and June capital goods orders to be similarly underwhelming. However, if the Trump administration can execute, then we should see investment pick up or at least begin to stabilize by the second half of the year, given the self-imposed July 8 deadline for tariff negotiations. If the July 8 deadline is extended or few countries actually reach agreements in the remaining weeks (i.e., uncertainty remains high), then we can expect mediocre investment growth to continue into Q3.

U.S. Outlook

We still expect a recession in the U.S., although the probability (60%) remains close to a coin flip.

Our biggest concern remains with investment. Volatile policies and valuations are causing some firms to slow investment and hiring decisions, as well as deal-making. We expect the 10% near-universal tariff rate to cut significantly into profit margins. This is likely to particularly affect smaller businesses, who have less pricing power, lack the deep pockets to accumulate inventory, and are less likely to be diversified against shocks.

Consumers are increasingly worried, according to recent survey data. In the near term, we expect households and firms to continue to front-load the purchase of imported goods, with a tapering off into mid-year. We are also concerned about whether households invested in the stock market will pull back spending in light of volatile markets. Households in the top 10% make up 50% of all consumption, so the behavior of this group of consumers is critical to continued economic growth.

The July deadline for trade negotiations is coming soon, with scant progress toward trade “deals.” The most positive result from discussions so far appears to be a détente of sorts with China.

Chair Powell, in his recent remarks, repeatedly articulated his satisfaction with the current monetary policy stance. We expect the Fed to resist cutting until there is greater clarity on the ultimate effect of tariffs on prices. In the second half of the year – if tariff policy settles down by then – we expect labor market dynamics to rise in importance and the FOMC to make substantial cuts to the Fed Funds rate.

MIM Forecast

	2024	2025
Policy Rate	4.25-4.50*	3.75-4.00
GDP (Ann. Avg. % Chg.)	2.8*	0.7
CPI (Dec. Y/Y %)	2.7*	3.0
10-year Treasury (YE %)	4.57*	4.25
Unemployment (YE %)	4.1*	4.5

*Actuals

Source: BEA, BLS, Treasury, Federal Reserve, MIM. As of June 2025.

Looking forward, we expect continued tariff uncertainty as well as a broadening of attention by the Trump Administration to include more growth-oriented policies such as tax cuts and deregulation.

Risks to The Outlook

The risks to our view are tilted slightly to the upside. Some sort of “Liberation Day” tariffs are likely to remain in place, but if there is a moderation in the universal tariffs, a détente with China, and few or no other bilateral tariffs are imposed, this could help tilt the economy toward growth. We also expect the Trump Administration to focus on more growth-positive policies in the second half of the year, including deregulation and an extension of the Tax Cuts and Jobs Act.

Labor markets may remain stronger than we expect, especially given the diverse actions that are broadly discouraging of inbound labor flows.

However, if an off-base case growth scenario emerges, we would expect it to go hand-in-hand with greater inflation as producers would be better able to pass on price increases to consumers.

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