US: Beige Book points to latent inflationary risks

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- **The Fed's Beige Book provides qualitative information on economic conditions in its 12 districts, based on commentary from reliable sources.**
- **Since the beginning of July, economic activity has maintained moderate growth, employment has advanced marginally and inflation has remained contained.**
- **The report indicates that inflationary pressures remain latent in the cost structure of companies, reinforcing the expectation of a cautious and data-dependent Fed.**

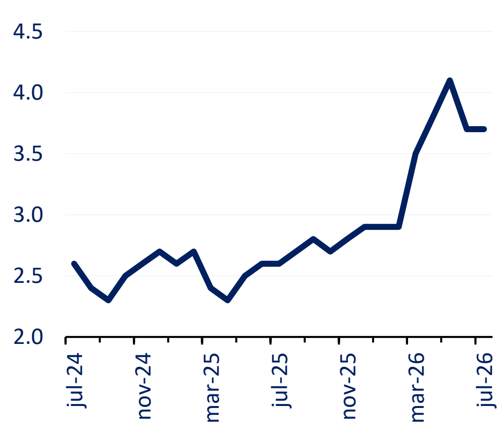
Current Economic Conditions

The Federal Reserve's (Fed) August Beige Book, based on comments from banks, companies and specialists compiled by the different districts of the central bank, reported that economic activity continued to expand at a moderate pace, while the labor market registered marginal growth and inflation remained contained. However, pressures persist in the cost structure of companies.

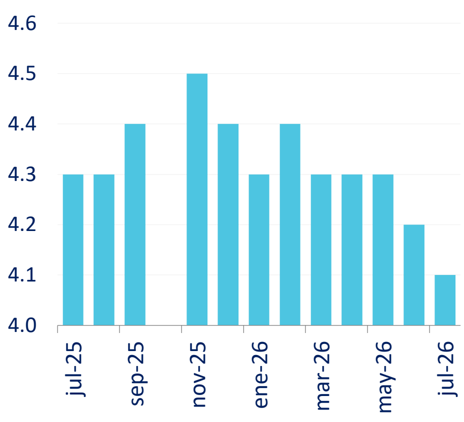
Economic activity

According to the report, from the beginning of July to the end of August, economic activity increased at a moderate pace. Ten of the twelve Fed districts reported slight or moderate growth, while the remaining two reported no change from the previous report. Consumer spending registered a slight advance, supported by purchases of high-end goods and greater tourism dynamism. For their part, airlines reported solid demand for flights, despite the increase in fares; while car sales remained moderate. On the other hand, the report highlighted a growing sensitivity of consumers to prices in general.

Annual PCE inflation (%)



Unemployment rate (%)



Source: Authors' elaboration with data from BEA and BLS.

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Regarding manufacturing activity, most districts reported an acceleration in the sector, supported by greater demand from industries linked to data centers and defense. For their part, service companies registered slight or moderate increases in activity. Likewise, financial conditions showed a slight improvement, reflected in credit volumes that remained solid or increased in most districts.

Inflation

Prices continued to rise in most Fed districts, with moderate increases in eight districts, modest in two, slight in one, and robust in another. Compared with the previous period, the pace of price growth remained unchanged in eight districts, slowed in three, and accelerated in one. Cost pressures continued to be concentrated in the manufacturing and construction sectors, driven by higher energy, transportation, and commodity prices, especially metals and petrochemicals. In addition, the effects of tariffs on manufacturing and retail firms persisted, along with higher health care and insurance costs. However, several consumer-facing firms noted that households' increased sensitivity to prices limited their ability to fully pass on these higher costs to final consumers.

Employment

Employment registered marginal growth, with gains in seven districts and stability in five. Labor demand remained solid in manufacturing, construction, and some services, although it weakened in the retail and hospitality sectors. Worker availability remained uneven, with shortages of technical and skilled personnel, while artificial intelligence generated mixed effects on hiring. In this context, wages continued to grow at a modest to moderate pace, with higher increases for skilled workers in manufacturing and construction.

What to expect?

August's Beige Book suggested that inflationary pressures remain broadly contained, in line with the recent inflation reading, which showed stability in both headline and core inflation. However, the report notes that this moderation is partly due to the fact that companies have avoided fully passing on their cost increases to the consumer in the face of the sensitivity of private spending to price increases. Likewise, the main pressures come from energy, its transmission to raw materials and transportation, the impact of tariffs on the retail sector, and the persistence of some pressures in services. In this context, we expect the Fed to keep the target range of the federal funds rate unchanged at 3.50%-3.75% at its meeting on September 16, while it continues to assess the evolution of the dynamics of underlying inflationary pressures.

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