Economic Update, September 19, 2025

Submitted by Bob Moreo

Summary: The Federal Open Market Committee met this week with expectations that it would trim target interest rates by a quarter point—the first cut since three consecutive cuts reduced rates to 4.25-4.5 percent at the end of 2024. The committee's statement on Wednesday said rising "downside risks to employment" outweighed ongoing inflation concerns, and a quarter-point cut was approved, with newly confirmed board member Stephen Miran the lone "no" vote because he preferred a half-point cut. Committee members were more divided over the likelihood of one, two, or no additional cuts this year. The futures trading market, meanwhile, sees a 92 percent probability of a quarter-point October cut and 82 percent probability of a subsequent quarter-point cut in December. The Fed's decision came the day after a Bureau of Labor Statistics report showed prices for imported consumer goods increased in August at the fastest rate since January 2024. Costs for imported industrial supplies, materials, and capital goods like computers and machinery also jumped more than expected; economists polled by Reuters had forecast prices, "which exclude tariffs, would dip 0.1 percent after a previously reported 0.4 percent advance in July." Price increases didn't seem to stop consumers from buying, however. Retail sales increased 0.6 percent in August, "the same as an upwardly revised 0.6 percent rise in July," *Trading Economics* reported, "beating market expectations of a smaller 0.2 percent gain." Residential construction slowed in August, "with starts and permits falling on both a month-over-month and year-over-year basis," according to an analyst for Realtor.com, who noted that total permits in the South region have fallen 15 percent from a year ago, more than any other region. Nationwide, single-family permits dropped "to the lowest level in more than two years," according to Reuters. Housing starts "tumbled 17 percent" last month in the South region but rose in the rest of the country. However, with mortgage rates trending lower and further rate cuts expected from the Fed, the National Association of Home Builders reported builders' future sales expectations rose two points in September.

TACIR has an ongoing partnership with the Business and Economic Research Center at Middle Tennessee State University to provide an interactive *Tracking Tennessee's Economy* dashboard. Please visit the website to learn more about Tennessee's economic and labor market trends at the state, county, and metropolitan statistical area levels.

Federal Government Indicators and Reports:

Bureau of Labor Statistics

Tuesday, U.S. Import and Export Price Indexes: "Import prices increased 0.3 percent in August following an advance of 0.2 percent in July and a decrease of 0.2 percent in June. . . . Prices for nonfuel imports increased 0.4 percent in August following no change in July. The August advance was the largest monthly increase since the index rose 0.6 percent in April 2024. . . . Import prices for nonfuel industrial supplies and materials increased 1.0 percent in August, after rising 0.2 percent in July. . . . Import consumer goods prices increased 0.7 percent. . . . Capital goods import prices advanced 0.5 percent. . . . Prices for U.S. exports advanced 0.3 percent in August. . . . [and] rose 3.4 percent over the 12-month period, . . . the largest over-the-year increase since the index rose 4.6 percent for the year ended December 2022."

Wednesday, State Job Openings and Labor Turnover: "Job openings rates decreased in three states, increased in one state, and were little changed in 46 states and the District of Columbia in July. The decreases in job openings rates occurred in New York (-0.9 percentage point) as well as in Florida and Tennessee (-0.7 point each). . . . Decreases in the job openings level occurred in New York

(-104,000), Florida (-76,000), and Tennessee (-25,000)." Job openings in Tennessee were also down compared to the previous year. The seasonally adjusted level of job hires for Tennessee in July was 131,000, which was above the previous year's level and higher than each of the three previous months. Layoffs and discharges in July were down from the previous month's level.

Friday, State Employment and Unemployment: "Unemployment rates were higher in August in 3 states, lower in 2 states, and stable in 45 states and the District of Columbia. . . . Seventeen states and the District had jobless rate increases from a year earlier, 9 states had decreases, and 24 states had little change."

Census Bureau

Tuesday, Advance Monthly Sales for Retail and Food Services: "Advance estimates of U.S. retail and food services sales for August . . . were $732.0 billion [seasonally adjusted], up 0.6 percent from the previous month, and up 5.0 percent from August 2024."

Tuesday, Manufacturing and Trade Inventories and Sales: "The combined value of distributive trade sales and manufacturers' shipments for July . . . was estimated at $1,948.2 billion [seasonally adjusted], up 1.0 percent from June 2025 and was up 4.0 percent from July 2024." Inventories "were estimated at an end-of-month level of $2,666.7 billion, up 0.2 percent from June 2025 and were up 1.5 percent from July 2024."

Wednesday, New Residential Construction: "Privately-owned housing units authorized by building permits in August were at a seasonally adjusted annual rate of 1,312,000. This is 3.7 percent below the revised July rate of 1,362,000 and is 11.1 percent below the August 2024 rate of 1,476,000. Single-family authorizations in August were at a rate of 856,000; this is 2.2 percent below the revised July figure of 875,000. . . . Single-family housing starts in August were at a rate of 890,000; this is 7.0 percent below the revised July figure of 957,000. . . . Single-family housing completions in August were at a rate of 1,090,000; this is 6.7 percent above the revised July rate of 1,022,000."

Department of Labor

Thursday, Unemployment Insurance Weekly Claims: "In the week ending September 13, the advance figure for seasonally adjusted initial claims was 231,000, a decrease of 33,000 from the previous week's revised level. . . . The 4-week moving average was 240,000, a decrease of 750 from the previous week's revised average. . . . The total number of continued weeks claimed for benefits in all programs for the week ending August 30 was 1,834,450, a decrease of 90,886 from the previous week. There were 1,727,381 weekly claims filed for benefits in all programs in the comparable week in 2024."

Federal Reserve Board

Tuesday, Industrial Production and Capacity Utilization: "Industrial production (IP) ticked up 0.1 percent in August after decreasing 0.4 percent in July. Manufacturing output rose 0.2 percent in August after edging down 0.1 percent in July. Within manufacturing, the production of motor vehicles and parts increased 2.6 percent in August, while factory output elsewhere edged up 0.1 percent. . . . Total IP in August was 0.9 percent above its year-earlier level. Capacity utilization maintained the same rate of 77.4 percent in August."

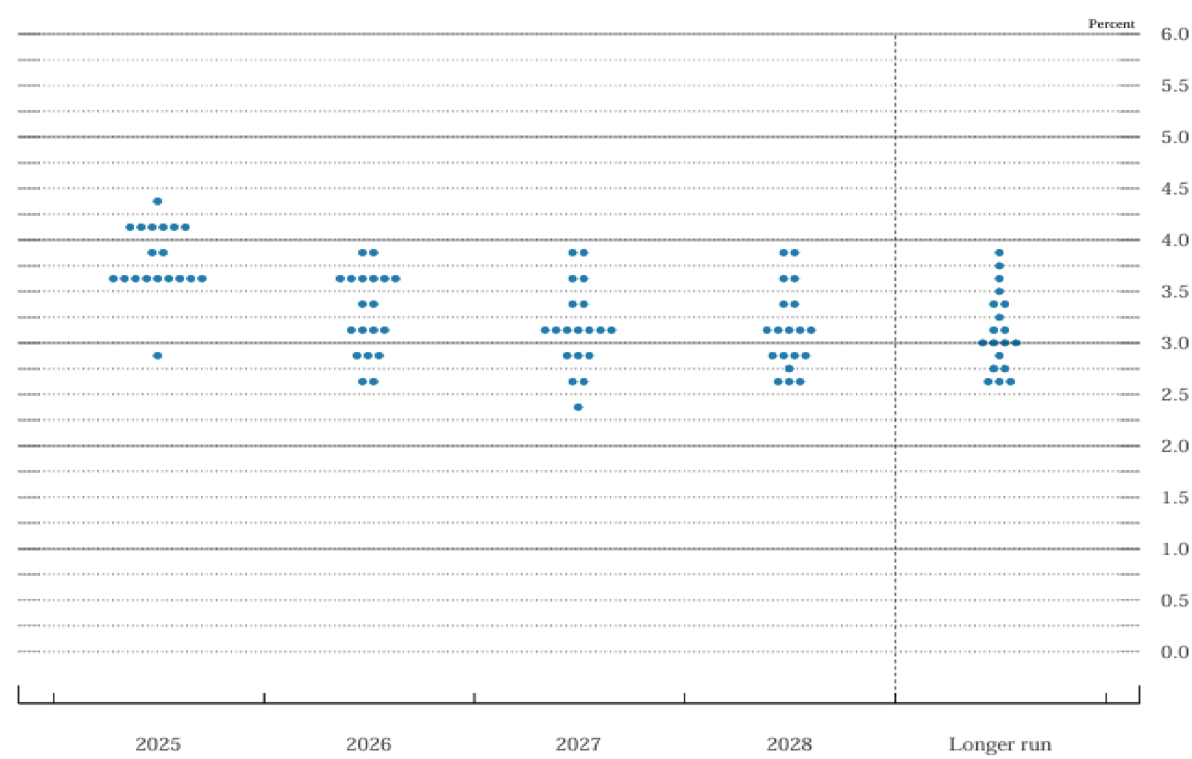
Wednesday, Open Market Committee Statement: "Recent indicators suggest that growth of economic activity moderated in the first half of the year. Job gains have slowed, and the unemployment rate has edged up but remains low. Inflation has moved up and remains somewhat elevated. . . . The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment have risen. In support of its goals and in light of the shift in the balance of risks, the

Committee decided to lower the target range for the federal funds rate by 1/4 percentage point to 4 to 4-1/4 percent."

Wednesday, Open Market Committee Economic Projections: Participants raised their real GDP forecast for 2025 from a median of 1.4 percent in June to 1.6 percent at this September meeting. Median GDP projections increased from 1.6 percent to 1.8 percent for 2026 and increased from 1.8 percent to 1.9 percent for 2027. Unemployment rate projections remained unchanged at 4.5 percent for 2025 but were lowered by 0.1 percent each year for 2026 and 2027. Projections for personal consumption expenditures (PCE) inflation remained at 3.0 percent for 2025. Core PCE inflation projections for 2025 were also unchanged at 3.1 percent. Projections for next year for both measures increased from 2.4 percent in June to 2.6 percent in September, with both falling to 2.1 percent in 2027 unchanged from June's projections.

Seven participants indicated no further rate cuts would be appropriate in 2025, maintaining the new target range of 4.0-4.25 percent. The committee will meet again October 28-29 and December 9-10. Two projected one more quarter-point cut, nine indicated further cuts of half a point, and one suggested rates should be reduced to a range of 2.75-3.0 percent. In his statement to the press, Chairman Powell said, "The median participant projects that the appropriate level of the federal funds rate will be 3.6 percent at the end of this year, 3.4 percent at the end of 2026, and 3.1 percent at the end of 2027. This path is 1/4 percentage point lower than projected in June."

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



Other Economic Indicators:

The Conference Board

Thursday, Leading Economic Index: "The Conference Board Leading Economic Index for the U.S. declined by 0.5 percent in August 2025 to 98.4 (2016=100), after a small 0.1 percent increase in July (upwardly revised from an originally reported 0.1 percent decline). The LEI fell by 2.8 percent over the six months between February and August 2025, a faster rate of decline than its 0.9 percent contraction over the previous six-month period (August 2024 to February 2025)."

Federal Reserve Bank of Atlanta

Wednesday, Business Inflation Expectations: "Firms' year-ahead inflation expectations remained relatively unchanged at 2.3 percent, on average. . . . Sales levels and profit margins 'compared to normal' decreased. Year-over-year unit cost growth remained relatively unchanged 2.3 percent, on average. . . . Firms' long-run (five to 10 year-ahead) unit cost expectations remained relatively unchanged from March 2025 at 2.8 percent."

Mortgages and Housing Markets:

Freddie Mac

Thursday, Primary Mortgage Market Survey: "'Mortgage rates decreased yet again this week, prompting many homeowners to refinance. In fact, the share of mortgage applications that were refinances reached nearly 60 percent, the highest since January 2022'. . . . The 30-year FRM [fixed-rate mortgage] averaged 6.26 percent as of September 18, 2025, down from last week when it averaged 6.35 percent. A year ago at this time, the 30-year FRM averaged 6.09 percent."

Mortgage Bankers Association

Tuesday, Builder Application Survey: "Data for August 2025 shows mortgage applications for new home purchases increased 1.0 percent compared from a year ago. Compared to July 2025, applications decreased by 6 percent." MBA's vice president said, "although the monthly pace of applications slowed from July . . . estimated new home sales increased for the third consecutive month to its strongest sales pace in almost a year."

Wednesday, Weekly Mortgage Applications: "Mortgage applications increased 29.7 percent from one week earlier, according to data . . . for the week ending September 12, 2025. . . . The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($806,500 or less) decreased to 6.39 percent from 6.49 percent."

National Association of Home Builders

Tuesday, Housing Market Index: "Builder confidence in the market for newly built single-family homes was 32 in September, unchanged from the August reading. . . . While builder sentiment has hovered at a relatively low reading between 32 and 34 since May, builders expressed optimism that a more favorable interest rate climate could bring hesitant buyers off the sidelines in the final quarter of 2025. . . . 39 percent of builders reported cutting prices in September, up from 37 percent in August. . . . The HMI index gauging future sales expectations in September rose two points to 45, the highest reading since March of this year. The component measuring current sales conditions held steady at 34."