The Daily Dish

September Reset

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With Labor Day in the rearview mirror, it is a good time to take stock of the economy and key policy areas – regulatory, fiscal, and monetary. Let's begin with the economy, which is about as vibrant as Norway. (Sorry, just toured the land of the nanny state and flatlined personalities.)

The labor market remains essentially at a standstill. Employment has grown at an anemic annual rate of 0.6 percent to date in 2025 – one-half the pace of last year – although the slow growth of the labor force means that the unemployment rate has remained low. Put differently, the average monthly job creation has been 81,000 jobs, again one-half the average in 2024.

Household spending, as measured by real personal consumption expenditures (PCE), is growing at an annual rate of 0.5 percent thus far this year (down from 2.9 percent last year), with goods demand (0.3 percent) growing more slowly than services (0.7 percent). Residential construction is simply in near free fall, declining at an annual rate of 3.1 percent in the first six months of 2025.

Business investment in structures is falling at a rate of 5.7 percent, but the single bright spot on the economic horizon is business investment in equipment (rising 15.3 percent) and software (growing at 9.3 percent) – both likely driven by the prospects of artificial intelligence.

With the economy in such a fragile state, the prospects for growth are unusually dependent on policy choices. On the regulatory front, reduced regulatory burdens are more promise than reality. As Dan Goldbeck recently put it:

> *Since January 1, the federal government has published $704.8 billion in total regulatory net cost savings (with $77.4 billion in cost savings from finalized rules) and*

> *71 million hours of net annual paperwork cuts (with 48.6 million hours coming from final rules).*

Notice the big difference between published rules and those actually finalized.

On the fiscal front, uncertainty reigns. The appropriations process is far behind schedule (see here) and there is a real possibility of a government shutdown when the new fiscal year arrives on October 1. The other major uncertainty is the future of tariffs, including the revenue effects, with the appeals court decision voiding many of the levies.

This brings us to the Fed and monetary policy, with the next interest rate decision due at the September 16–17 meeting. Even if it cuts rates, it will take time for this impact to be felt. From an employment perspective, it is an open question whether growth will remain in positive territory. From an inflation perspective, the upward pressures will continue. The only question is how much and how quickly.

Stepping back, there are reasons to be concerned. The pace of the economy's trend growth is uncertain given the massive tax/tariff hikes (depending on the courts), attacks on Fed independence, intrusive nationalizations of Intel, Nippon, and Nvidia, chaotic policymaking style, and unchecked deficits and debts.