

## Communities Light the Way

**F**or much of 2025, businesses faced extraordinary uncertainty. Major policy changes — from tariffs to immigration to federal spending cuts — arrived alongside geopolitical shifts and rapid advancements in artificial intelligence (AI).

I likened running a business in such conditions to “driving through fog.” With uncertainty high, business leaders didn’t feel comfortable putting their foot on the gas nor slamming on the brakes. They didn’t lean into investment, but they didn’t necessarily cut back. They didn’t hire, but they didn’t fire either. They simply pulled over, turned on their hazards, and waited for clarity.

My job is to understand the economy, and I have a team to help me do it. But we too had to navigate with poor visibility. The official economic data, the headlights that often help illuminate our path, always have some drawbacks. They’re backward-looking. They’re revised multiple times. And they’re aggregated, often missing underlying nuance.

Last year only brought more challenges. Response rates fell, and the record-long government shutdown led to delayed data releases and, in some cases, skipped ones.

How did we proceed? We at the Richmond Fed relied on our low beams. We focused on what was directly in front of us: our communities.

The Richmond Fed has spent years building relationships with a wide network of business and community leaders in the Fifth District. Supplementing data with real-time intel from regional firms and individuals helps us fill gaps left by the data. You can read our most recent business insights from our outreach on page 3.

In 2025, we had nearly 4,000 touchpoints with contacts across the Fifth District. That included over 400 sit-down conversations with more than



300 unique firms, as well as dozens of roundtable discussions that brought in the public and nonprofit sector too.

Some of these conversations were regular updates to keep a general pulse on the economy. Others were specifically set up to better understand the implications of big changes in the most impacted industries.

Our surveys provided additional color. We received input from 233 manufacturing firms and 492 non-manufacturing firms over the course of the year via our monthly business surveys; all in all, that combined to provide us with a total of 3,200 responses. The CFO Survey, which we run quarterly with the Atlanta Fed and Duke University, received another 2,488 responses from 982 firms. Along with our regular survey questions, we wove in more topical questions throughout the year to gauge evolving conditions.

To illustrate, consider tariffs. After several years of elevated inflation, we wanted to quickly understand if the new rates would lead to a one-time price increase or enduring pressure on inflation. In the months following the bulk of the tariff announcements, we doubled outreach to manufacturing

and retail firms. We leveraged research by one of our economists, Marina Azzimonti, on average effective tariffs rate by county to target our outreach geographically. We also embedded tariff-specific questions into our surveys.

It was clear early on that there would be a delay before tariff increases showed up in prices. That was thanks in part to a slew of strategies on the business side, including front-running tariffs, depleting pre-tariff inventory, and spreading out cost pass-through over time to make it less noticeable. This told us to be patient; the tariff impact was unlikely to show up immediately in prices, but that didn’t mean it wasn’t coming.

Most firms also told us they wanted to pass on all cost increases but did not feel they could. Consumers were pushing back on price increases, trading down to cheaper alternatives, or trading off between spending categories. This told us that consumers might help keep prices in line.

Tariffs had the potential to impact both sides of our dual mandate — not just price stability — but also maximum employment. If firms faced higher costs but were unable to raise prices in step, they could have turned to cutting labor. While firms repeatedly mentioned reducing headcount via attrition, few ever mentioned layoffs. This eased concerns about a coming spike in the unemployment rate.

Businesses highlighted rising productivity often; efficiency gains were helping them navigate tight margins. AI came up often as an area of exploration, but firms primarily credited process streamlining and non-AI automation for measurable improvement. In our December business surveys, firms told us employees were much more likely to test or use AI tools for specific tasks than to weave them into

wider operations. You can read more about AI investment on page 10.

The Washington, D.C., metro area took a disproportionate hit from federal spending and workforce cuts. Given they're a critical part of our Fifth District, we sought to understand the impact on the region. Along with one-on-one outreach to regional contacts, we organized roundtables with firms, federal contractors, and nonprofits to gauge the impact of changes. Doing so helped us understand where the pain points were. For

example, professional services contractors in the Maryland portion of our district were hit much harder than defense-centric contractors in Virginia. In time, it also helped us differentiate between the feared policy impact and the realized one. There was real existential panic early on, but the local economy held up much better than initially feared. Even so, concern about growth and brain drain endured.

Early 2026 has already brought its fair share of developments. It looks like the fog may be here to stay. I'm

grateful to be able to count on the generosity of our business and community partners, who I hope will continue to lend us their time and expertise. They continue to help light the way.



**Tom Barkin**  
President and Chief Executive Officer

**Interested in learning more about the surveys that help the Richmond Fed understand the economy?**

**Scan here to access our full suite of regional surveys and analysis, including the monthly business surveys and The CFO Survey.**

