

# Economic Landscape

October 2025

## MANUFACTURING

- U.S. manufacturing activity contracted at a slightly slower pace last month, with the ISM Manufacturing PMI rising modestly from 48.7 in August to 49.1 for September. Output improved as production expanded, while employment remains subdued as firms continue to maintain rather than expand headcount. Overall demand softened with declines in both new domestic and export orders. Inventories were a bit lower than last month, possibly signaling that firms are drawing down on supplies built up ahead of tariff implementation. The Prices index trended modestly lower, but at a reading of 61.9 it continues to reflect rising input prices.

## BEIGE BOOK

*Many key economic data releases have been indefinitely delayed due to the ongoing U.S. government shutdown; in their absence, the Fed's October 2025 Beige Book provides insights into current conditions, noting the following trends:*

## LABOR MARKETS

- Employment remained largely stable, though labor demand was subdued across most regions and industries. Many firms reduced payrolls by way of layoffs or attrition amid softer demand, heightened uncertainty, and some rising investment of artificial intelligence technologies. While labor availability improved overall, employers increasingly relied on temporary or part-time workers. Some sectors—particularly hospitality, agriculture, construction, and manufacturing—continued to face labor shortages linked to immigration policy changes. Wage growth remained modest to moderate, but overall labor cost pressures rose due to higher employer health insurance expenses.

## PRICES

- The Fed's Beige Book reported that prices continued to rise, driven in part by higher import costs and rising expenses for services such as insurance, health care, and technology. Tariff-related cost increases were noted across many Districts, though businesses varied in their ability to pass those costs on—some absorbed them to maintain market share, while others, particularly in manufacturing and retail, raised prices. In a few areas, softening demand led to price declines for certain materials, including steel and lumber.

## SALES

- Overall consumer spending edged lower in recent weeks, with retail sales softening but auto sales temporarily boosted by strong electric vehicle demand ahead of a federal tax credit's expiration. Leisure and hospitality spending by international travelers declined, while domestic demand held steady, supported by continued strength in luxury travel among higher-income consumers. In contrast, lower- and middle-income households remained price-sensitive, increasingly relying on discounts and promotions amid ongoing inflation and uncertainty.

## SHADES OF BEIGE TAKEAWAYS

*The Beige Book showed mixed business sentiment about future growth, with some Districts anticipating a modest pickup in demand over the next year, while many others expect persistent uncertainty to restrain activity. The Third District (Philadelphia) specifically noted additional downside risks tied to the ongoing government shutdown. Meanwhile, recent comments from Chair Powell suggest a growing focus on supporting employment as labor market conditions soften, even as inflation remains elevated. In response to his recent comments, markets are pricing in two additional quarter-point rate cuts this year, followed by two or three more in 2026. While these projections can fluctuate quickly, they do consistently reflect expectations for a more accommodative policy stance going forward.*

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