Economic Landscape

January 2026

MANUFACTURING

• The December ISM Manufacturing PMI fell to 47.9%, its lowest level of 2025, signaling a tenth consecutive month of sector contraction. While marginal improvements in new orders and "too low" customer inventory levels offer a potential floor for 2026, persistent price pressures (58.5%) and tariff-related uncertainty continue to weigh heavily on production and overall business sentiment.

• Total industrial production increased 0.4% in December, boosted by a 2.6% surge in utilities output. Mining production declined 0.7%, while factory output rose a modest 0.2% for the month. Capacity utilization edged up to 76.3%, which is 3.2 percentage points below the long-run average. Overall, industrial production rose by 2.0% over calendar year 2025.

LABOR MARKETS

• The November Job Openings and Labor Turnover survey (JOLTS) showed openings declined (-303k) to 7.1 million while hires fell (-253k) to 5.1 million. Total separations were flat, as layoffs slipped (-163k) while quits rose modestly (+188k) and the quits rate edged up to 2.0%.

• Nonfarm payrolls increased by a modest 50,000 jobs in December, capping off the weakest year for job growth since 2003, excluding the 2020 pandemic year. The gains remained highly concentrated in healthcare (+21,000) and leisure & hospitality (+47,000), while manufacturing (-8,000) and retail trade (-25,000) continued to shed positions. The official unemployment rate ticked down to 4.4%, while average hourly earnings rose 3.8% year over year. The underlying "low hire, low fire" trend suggests a labor market that is cooling rather than collapsing, though persistent downward revisions to previous monthly data and the gradual increase in long-term unemployment (those jobless for 27 weeks or longer) provide less of a cushion against any potential economic shocks in 2026.

PRICES

• The December Consumer Price Index (CPI) report showed that headline inflation increased 0.3% for the month and is up 2.7 % over the past twelve months. The primary drivers were shelter (+0.4%) and a sharp acceleration in food prices (+0.7%), while a continued decline in used vehicle prices (-1.1%) provided a welcome offset. Energy prices increased a moderate 0.3% for the month as lower gasoline and electricity costs were counterweight to a surge in natural gas prices (+4.4%). Excluding food and energy, core CPI rose 0.2% in December and 2.6% from one year ago.

• Certain data releases are still in catchup mode from the shutdown, including the Producer Price Index, which rose 0.2% for November. The gain was primarily driven by a 4.6% surge in energy goods. The U.S. Import Price Index increased 0.4% from September 2025 to November 2025 led by higher prices for nonfuel imports like industrial supplies and materials. Export prices advanced 0.5% over the two-month period with agricultural export prices up 1.3% and nonagricultural exports up 0.4%.

PAUSE FOR REFLECTION

While the May expiration of Chair Powell's term could signal a shift toward a less predictable policy stance, markets are still pricing in a smooth leadership transition. The available data from the past few weeks suggests that the Federal Reserve may be nearing its "neutral" destination, and that Fed policymakers are likely to adopt a hawkish pause in the first quarter of 2026. While the cooling labor market and steady core inflation justify the 175 basis points of cuts already delivered since late 2024, the persistent weakness in manufacturing and rising shelter costs make the final path to a 2% target very difficult.

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