

Economic Landscape

September 2025

MANUFACTURING

- In August, the ISM Manufacturing PMI edged up slightly to 48.7, remaining in contraction but showing modest improvement from the prior month. Notably, New Orders (51.4) returned to growth for the first time in six months, while Production (47.8) declined. Prices paid (63.7) eased for the second month but remained elevated. Employment (43.8) and Backlog of Orders (44.7) remained weak, and industry sentiment was broadly pessimistic, citing tariff-related uncertainty and reduced capital spending. Overall, the data suggests a mixed picture, with signs of stabilization in demand but ongoing challenges in production, labor, and supply chains.
- Industrial production unexpectedly rose 0.1% in August, driven by a 0.2% increase in factory output and a 2.6% gain in motor vehicle production. However, a downward revision to July's data—from -0.1% to -0.4%—means overall output remains weaker than previously estimated. Mining showed modest improvement (+0.9%), but utilities output declined sharply (-2.0%). Despite these mixed results, industrial production is still 0.9% above last year's level, while capacity utilization held steady at 77.4%, still 2.2 percentage points below its long-term average.

LABOR MARKETS

- Nonfarm payroll employment showed minimal growth in August, increasing by just 22,000 jobs, with little overall change since April. Job gains were concentrated in health care (+31,000) and social assistance (+16,000), while manufacturing (-12,000) and mining (-6,000) saw declines. Federal government employment continued its downward trend (-15,000). Average hourly earnings rose modestly by 0.3% in August and are up 3.7% year-over-year. The official unemployment rate edged slightly higher, to 4.3%.
- The July JOLTS reflects lukewarm demand for workers, as the number of job openings declined (-176,000) to 7.2 million, while hires were little changed (+41,000) at 5.3 million. Total separations were stable at 5.3 million, and within separations, layoffs and quits were unchanged at 1.8 million and 3.2 million, respectively. The quits rate held at 2.0% for the fourth month in a row.

PRICES

- Inflation picked up modestly in August. The Consumer Price Index rose 0.4% for the month and is up 2.9% year over year. Shelter (+0.4%), food (+0.5%), and energy (+0.7%) were the main contributors, with gasoline prices up 1.9% for the month. Excluding food and energy, core CPI increased 0.3% for the second straight month and is 3.1% higher than one year ago. While several categories including medical care, recreation, and communication eased, higher costs for housing and transportation continue to drive core inflation.
- The Producer Price Index slipped 0.1% in August following a strong 0.7% gain in July, as lower service prices offset a small rise in goods. However, the core PPI measure (excluding food, energy, and trade) rose 0.3%. U.S. import and export prices both advanced 0.3%, with nonfuel imports driving the gain on the import side and nonagricultural export prices driving its index higher.

SALES

- Retail sales surprised to the upside in August, rising 0.6% versus 0.2% expected. Strength was broad-based, with gains in the auto sector (+0.5%), electronics (+0.3%), gas stations (+0.5%), apparel stores (+1.0%), grocery stores (+0.3%), online retailers (+2.0%), and bars & restaurants (+0.7%). That said, much of the headline surge reflects higher prices, meaning "real" sales growth was resilient but considerably more modest.

MARCHING TO THE BEAT OF A DIFFERENT DOLDRUM

Retail sales show consumers are still spending, even as key cyclical sectors like manufacturing remain stagnant. Higher tariff-related costs are restraining hiring and capital investment. The Fed responded with a quarter-point cut to the target rate earlier this month and their projections suggest one or two more cuts this year. Softer policy may help support labor demand, but for now, the economy remains in an uneasy balance between a cautious job market and persistent inflation pressures.

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