Economic Landscape

December 2025

MANUFACTURING

• November's ISM Manufacturing PMI slipped to 48.2, marking a ninth straight month of contraction and reflecting broad softness across the sector. New orders, backlogs, employment, and supplier deliveries all declined, underscoring weak demand and continued caution around hiring. A modest positive sign came from the production index, which jumped back into expansion, helped by earlier improvements in backlogs. Input conditions were mixed: the Prices Index rose again to 58.5, breaking a recent easing trend and signaling that cost pressures, while not as widespread as earlier in the year, remain elevated.

• Industrial production edged up 0.1% in September, though the gain looks modest given downward revisions to prior months. Manufacturing output was flat for the month but remains slightly above year-ago levels, and third-quarter manufacturing growth still registered a 1.3% annualized increase. Capacity utilization held at a subdued 75.9%, well below long-run norms, reinforcing that spare capacity remains ample across the sector.

LABOR MARKETS

• The October JOLTS report showed a slight rebound in job openings —from 7.2 million in August to roughly 7.7 million in October – helping to bring labor demand back into better balance with available workers, with the openings-to-unemployed ratio returning to about one for one. Hires and separations were both at 5.1 million, little changed from August to October and reflect a labor market that is stable but continuing to cool. Within separations, quits were modestly lower and the quits rate dropped to 1.8%, marking the lowest reading since the early months of the pandemic. Layoffs were slightly higher, primarily in accommodations and food services.

FEDERAL RESERVE

• The FOMC lowered the target federal funds rate range by a quarter of a percent this month, to a range of 3.50% to 3.75%. The Fed also indicated that bank reserve levels have declined to "ample," and will begin purchasing short-term Treasuries as needed to maintain adequate reserves. The Fed also released the updated *Summary of Economic Projections*, forecasting stronger economic growth, lower inflation, and stable unemployment. In their assessment of the appropriate target Fed funds rate, the Committee left its expectations unchanged from September: just one 25 basis point rate cut in 2026.

• In the press conference following the FOMC meeting, Chair Powell's central message was that the U.S. economy is solid heading into 2026 with underlying support from resilient consumer spending, AI-related capital investment, and potentially stimulative U.S. fiscal policy. Powell's remarks indicate that the Fed is prioritizing labor market support over controlling inflation, noting more than once that the jobs report has likely overstated job creation. As far as higher prices, Chair Powell noted that services inflation is coming down while goods inflation is experiencing a bump from tariffs that will start to fade next year.

AS WE TIE A BOW ON THIS YEAR

The Fed has now cut rates by 75 basis points this year for a total 175 basis points so far since the start of the current easing cycle. From here, the Fed is likely to revert to a more patient "wait and see" position, assessing how those reductions filter through to the broader economy before cutting further. Thankfully, the timing and availability of economic data should be nearly back to normal in January, as government agencies continue to recover from the shutdown. Until then, happy holidays!

First Commonwealth Advisors