

# Economic Landscape

February 2025

## MANUFACTURING

- The ISM Manufacturing Index rose to 50.9% in January, marking the first expansion in the sector since 2022 after 26 months of contraction. New orders, production, employment, and supplier deliveries all improved, with employment expanding for the first time in seven months. The rebound came with rising price pressures, as the prices paid index increased to 54.9%, signaling the broadest rise in input costs since May.
- Industrial production rose 0.5% in January, following a 1% gain in December. Growth was driven by utilities output (+7.2%), spurred by colder weather and winter storms. Factory output dropped 0.1% in January, though it showed year-over-year improvement consistent with the PMI. Excluding auto & parts production (down 5.2%), manufacturing rose 0.2% with a continuing rebound in aerospace production. Capacity utilization advanced to 77.8%, which is 1.8 percentage points below the 1972-2024 average.

## LABOR MARKETS

- In January, total nonfarm payroll employment increased by 143,000, and the unemployment rate edged down to 4.0%. Job gains were led by health care (+44,000), retail trade (+34,000), and social assistance (+22,000), while employment declined in mining support (-8,000). Wage growth remained high, with average hourly earnings rising by 0.5% to \$35.87, up 4.1% over the past year. Additionally, employment revisions for November and December added a combined 100,000 jobs to previous estimates.
- Job openings fell to 7.6 million in December, down 556,000 for the month and 1.3 million over the year, with declines in professional services, health care, and finance. Hires remained steady at 5.5 million, while separations held at 5.3 million, with the quits rate unchanged at 2.0%. Layoffs and discharges also saw little movement, indicating a stable but cooling labor market.

## PRICES

- The Consumer Price Index (CPI) rose 0.5% in January, up from 0.4% in December, bringing the annual inflation rate to 3.0%. Shelter (+0.4%) contributed nearly 30% of the monthly increase. Energy prices increased (+1.1%) with gains for gasoline and natural gas. The food index advanced by 0.4%, fed by the 0.5% rise in grocery prices (*egg prices surged by 15.2% for the month*). Core CPI (excluding food and energy) increased 0.4% for the month and 3.3% year-over-year, driven by gains in motor vehicle insurance, recreation, used cars, and medical care; prices for apparel and household furnishings declined.
- The Producer Price Index (PPI) rose 0.4% in January, following a 0.5% increase in December. Core PPI (excluding food, energy, and trade services) rose 0.3%, with final demand services (+0.4%) driving most of the gain. Import prices increased 0.3%, fueled by higher fuel and nonfuel costs, while export prices jumped 1.3%, led by nonagricultural goods.

## SALES

- Retail sales fell 0.9% in January, marking the largest drop in nearly two years. Declines were broad-based, with autos (-2.8%), furniture (-1.7%), and building materials (-1.3%) seeing notable pullbacks after strong fourth quarter sales. Sporting goods and hobby stores (-4.6%) saw the biggest drop, following a major December gain. While bad weather may have played a role, the 1.9% decline in online sales and 0.9% increase in restaurant sales suggest other factors were at play.

## HOLD TIGHT

*Economic growth remains solid, while further progress in reducing inflationary pressures have stalled. Based on Chair Powell's Congressional testimony earlier this month, we anticipate no urgency to lower the target federal funds rate over the next few months. Should the effects from tariffs and other shifting economic policies begin to weigh on domestic growth, we expect a swift return to further easing.*

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