

Economic Landscape

August 2025

MANUFACTURING

- The ISM manufacturing PMI fell to 48.0% in July, signaling the fifth straight month of contraction. While the Production Index component edged into expansion at 51.4%, new orders continued to contract at 47.1%, reflecting weak demand albeit at a slower pace. The Employment Index dropped further to 43.4% amid reports of ongoing layoffs. The ISM Prices Index eased to 64.8%, showing slower input cost inflation, and supplier deliveries were faster (49.3%).
- U.S. industrial production slipped 0.1% in July, slightly lower than expected, following a 0.4% gain in June. Factory output was flat, with strength in durables goods offset by weakness in nondurables. Mining production fell 0.4%, attributed to lower energy prices, while utilities output declined 0.2%. The capacity utilization rate decreased to 77.5%, 2.1 percentage points below the 1972-2024 average, suggesting ample slack in the industrial sector.

LABOR MARKETS

- Nonfarm payroll employment rose by 73,000 jobs, well below consensus forecasts. Job growth continued in health care (+55,000) and social assistance (+18,000), while federal government jobs declined (-12,000) and most other sectors were flat. The Bureau of Labor Statistics (BLS) also issued large downward revisions to May and June data, cutting prior reported job gains by a combined 258,000. The unemployment rate ticked up to 4.2%, while year-over-year wage growth is 3.9%.
- In the June JOLTS, job openings were slightly lower (-275,000) at 7.4 million but broadly stable this year. Hires (-261,000) at 5.2 million and total separations (-153,000) at 5.1 million were little changed. Within separations, quits were stable (-128,000) at 3.1 million, and the quits rate remained 2.0%.

PRICES

- The Consumer Price Index advanced 0.2% in July. Food prices remained flat for the month as lower grocery prices (-0.1%) offset higher prices for meals away from home (+0.3%). The index for energy decreased significantly (-1.1%) reflecting lower prices for gasoline, natural gas, and electricity. Excluding food and energy, core CPI accelerated, up 0.3% driven by services inflation including shelter, air fares, medical care services, and recreation. Goods prices appeared mixed, with increases in household furnishings and used cars and trucks while new vehicles were unchanged. Year over year, headline CPI was unchanged at 2.7% while core CPI rose to 3.1%.
- Following a flat reading in June, the Producer Price Index surged by 0.9% in July. Services inflation jumped 1.1% for the month on rising trade margins and higher portfolio management fees. Goods inflation advanced 0.7% with gains in fresh produce and energy prices. Elsewhere, the U.S. Import Price Index increased 0.4% in July on broad price gains. Export prices rose a modest 0.1% primarily due to higher nonagricultural export prices.

SALES

- Sales at U.S. retailers increased 0.5% in July. Auto sector sales rose 1.6% for the month with additional gains in home furnishings (+1.4%); gas stations (+0.7%); grocery stores (+0.4%); health & personal care (+0.4%); clothing stores (+0.7%); sporting goods, hobby, etc. (+0.8%); and online retailers (+0.8%). Sales fell at bars & restaurants (-0.4%); home improvement stores (-1.0%); and electronics & appliance stores (-0.6%).

A CHALLENGING SITUATION INDEED

Labor markets appear softer with anemic job growth over the past few months, while inflation remains somewhat elevated. At the annual economic symposium in Jackson Hole, Wyoming, Fed Chair Jerome Powell struck a careful balance highlighting the risks as a “challenging situation”. While he made no commitments, he did acknowledge that an adjustment to policy stance may be warranted, further solidifying expectations for a rate cut this fall.

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