

ISM Manufacturing Survey Results Deteriorated in February 2025, Topline Barely Holds onto Expansionary Territory at 50.3

- **The ISM Manufacturing PMI decreased to 50.3 in February 2025 but the details were weaker than this modest decline suggests**
- **New Orders for February 2025 dropped sharply to 48.6**
- **Production maintained its foothold in expansionary territory with a 50.7 result for February 2025**
- **Commodity Prices for manufacturers jumped to 62.4, their highest reading since June 2022**

The ISM Manufacturing PMI rose to 50.3 for February 2025. Although this result is the second consecutive monthly reading in expansionary territory, that outcome was based more on Inventories – an indicator of business planning and reaction to past activity – than on strength of current conditions. The New Orders, Production and Employment categories of the topline ISM Manufacturing index all receded from strong results in January, leaving room for debate as to the sustainability of the U.S. manufacturing sector's nascent emergence from the past two years' weakness.

The ISM Manufacturing PMI diffusion index indicates the net percentage of manufacturers who are experiencing expanding or contracting activity across various categories, with a reading below 50 revealing net contraction across the manufacturing sector. February 2025's topline reading of 50.3 represents the first time the index has posted consecutive months in expansionary territory since September 2022.

The ISM Manufacturing PMI's Employment component index fell back below the expansionary threshold of 50 in February 2025, posting a result of 47.6 for the month. This follows January's 50.3 result, which itself was the first reading above 50.0 since May 2024. Hiring among manufacturers will be the truest test as to whether the industry's burgeoning turnaround has staying power into the new year. The threat of tariffs raising the cost of foreign-produced goods has the potential to bolster the demand seen by U.S. producers – and across all segments of the domestic manufacturing base given the sweeping nature of the tariffs proposed. Offsetting that potential, however, is the potential hit to consumer demand that higher overall prices would portend as producers pass their own tariff-induced higher costs onto consumers.

New Orders for manufacturers broke a three-month streak of expansionary readings in February 2025, with the sub-index falling to 48.6. Results for the New Orders component of the ISM Manufacturing PMI offer perspective on what direction the U.S. manufacturing sector will follow in the months to come. If New Orders are providing expansionary signals, Production and potentially even hiring will need to rise to the occasion to meet that demand. Although February's New Orders reading was below the expansionary threshold of 50.0, it was stronger than every sub-50 reading posted throughout the second half of 2024 before the category ran

from August's 45.6 reading all the way up to 55.1 to open the new year. Considering the strength of the trend through the past six months and the uncertainty swirling around the U.S. manufacturing sector as a result of trade dispute rhetoric, it is far from assured that February's giveback of New Orders strength is the end of the industry's comeback. More data on this front will be required to confirm or reject this as an inflection point.

The most troubling component of the February 2025 ISM Manufacturing PMI survey's results has to be the jump in Commodity Prices endured by manufacturers. The Commodity Prices component index posted its largest one-month gain in more than a year, rising to 62.4 from a 54.9 result to open this year. Inflation woes have remained stubbornly entrenched despite the Federal Reserve's monetary policy words and actions, with the Fed's preferred inflation metric still hovering well above the 2.0% year-over-year average target (2.65% in January 2025). Higher costs for manufacturers, as demonstrated by the January 2025 ISM Manufacturing PMI's Commodity Prices sub-index, suggest that renewed upstream price pressure will be filtering through to consumers through mid-year. With consumer metrics such as retail sales and consumer confidence already showing cracks in the early returns for 2025, the Federal Reserve's job of balancing continued economic expansion with the need for higher rates to tame inflation seems to again be getting tougher.

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