

ISM Manufacturing Survey Unchanged in May 2025, Moderate Contraction at 48.5

- The ISM Manufacturing PMI decreased to 48.5 in May 2025, falling from 48.7 in April
- New Orders remained in contraction in May 2025 but edged up slightly to 47.6
- Production also edged up but remained below the expansionary threshold of 50, posting a result of 45.4 for May 2025
- Commodity Prices continue to post three-year highs, May 2025 coming in at 69.4

The ISM Manufacturing PMI fell to 48.5 for May 2025. The topline index is now down to its lowest reading since November 2024 after climbing into expansionary territory to open the year at a high point of 50.9. Current and forward-looking indicators in the ISM Manufacturing survey's sub-indices, including current Production, Employment, and New Orders, all posted slight gains for the month but remain in contractionary territory across the board. A new development for May, however, is manufacturers' inventories falling sharply – to 46.7, their lowest reading since the U.S.'s tariff chaos erupted (January 2025, 45.9). How efficiently U.S. manufacturers are able to respond to the new production dynamics and inventory management conditions will become apparent in the months ahead now that a near-term lull appears to have been established.

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. May 2025's topline reading of 48.5 represents the third consecutive monthly contraction after two months above the expansionary threshold to open this year and what looked like an encouraging trend through the second half of 2024.

The ISM Manufacturing PMI's Employment component index rose to 46.8 for the month in May 2025. Hiring trends among manufacturers will be the truest test as to whether the industry's response to tariff actions represent the renaissance envisioned by the Trump Administration's policy designs, or if U.S. industry is perhaps structurally limited in its capacity to fill the void created by higher-priced imported goods. Although job creation according to the ISM Manufacturing PMI's Employment sub-index fell back into contraction in February – before tariff implementation took effect – its trend through the first few months of the new U.S. trade environment suggests that employers are not yet embracing any prospects of increased demand as the year wears on.

Production and New Orders for manufacturers jointly comprise a perspective on how current and expected near-term demand, respectively, is manifesting. Both components of the ISM Manufacturing PMI's report showed stability at modestly contractionary levels in May 2025. Production came in at 45.4, up from April's 44.0, and New Orders rose to 47.6 from 47.2. A lack of further declines in May after sharp declines on both metrics since the start of this year offers a glimmer of hope that the U.S.'s new manufacturing sector realities

will be accommodated. But with tariff policy changing weekly and the full impact of tariff application currently on hold until early July, it is difficult to say whether the foothold established in May's report represents a bottom or simply one more step on the way down.

May 2025's Commodity Prices reading of 69.4 reveals that price pressures remain high on manufacturers despite tariff policy's on-again/off-again application to date. Recent Commodity Prices readings from the ISM Manufacturing PMI report, for February through May, are the highest since June 2022 (78.5). These higher costs will inevitably be passed on to some degree to consumers, complicating the Federal Reserve's battle against inflation both in monetary policy words and actions. The Fed's preferred inflation metric, the Core Personal Consumption Expenditure Deflator index, fell to a 2.5% year-over-year pace with last Friday's release of the April 2025 result. This is still well above the 2.0% year-over-year average target, and with the lag between producer cost increases and their reflection in consumer prices still clearing, further declines from that 2.5% pace are far from certain. Higher costs for manufacturers, as demonstrated by the May 2025 ISM Manufacturing PMI's Commodity Prices sub-index, suggest that renewed upstream price pressure will be pushing consumer prices higher through the second half of 2025. The Federal Reserve's job of balancing continued economic expansion with the need for higher rates to tame inflation remains an unenviable one.

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