

# Economic Landscape

May 2026

## MANUFACTURING

- The U.S. manufacturing sector continued its expansion in April, with the ISM PMI holding steady at a 52.7% as healthy domestic demand and rising new orders helped offset a mild slowdown in production and ongoing labor contraction. Input costs have surged, with the Prices Index jumping to 84.6%—the highest level in four years—driven largely by supply chain frictions and slowing delivery times. Customers' inventories remain low, which should provide a supportive cushion to sustain production pipelines even as global export markets soften.
- U.S. industrial production rebounded solidly in April, expanding by 0.7% to reverse the previous month's contraction and signaling underlying resilience in the broader economy. The turnaround was driven by a robust 0.6% pickup in factory output—led by a significant 3.7% jump in automotive production. Weather conditions contributed to the 1.9% increase in utilities output. In contrast, the mining sector remained slightly soft, down 0.5%. Overall capacity utilization ticked up to 76.1%, still comfortably below the long-term historical average (79.4%), suggesting that while industrial activity is regaining its footing, slack remains for production facilities.

## LABOR MARKETS

- The U.S. labor market added 115,000 nonfarm payroll jobs in April. Job creation was primarily concentrated in resilient domestic sectors like healthcare (+37,000), transportation & warehousing (+30,000), and retail (+22,000). The gains offset a drop in information (-13,000) as well as federal government employment (-9,000). The headline unemployment rate was unchanged at 4.3%, signaling a stable labor environment without immediate signs of severe distress. Average hourly earnings grew by a modest 0.2% for the month and 3.6% annually, suggesting that while the job market remains firm, wage-driven inflationary pressures continue to moderate.

## PRICES

- U.S. prices continued to climb in April, with the headline Consumer Price Index (CPI) rising 0.6% for the month and 3.8% on an annual basis. Geopolitical tensions contributed to a 3.8% surge in the energy index, including a 5.4% increase in gasoline prices. Food prices rose 0.5% for the month as grocery prices increased by 0.7% and food away from home rose 0.2%. Core CPI—which excludes volatile food and energy costs—accelerated to 0.4% in April, propelled by a 0.6% rise in shelter costs alongside notable increases in airline fares and household furnishings. Year over year, core CPI rose 2.8%.
- The Producer Price Index (PPI) increased 1.4% in April following a 0.7% rise the previous month. The service prices index gained 1.2% in April reflecting growing margins and an increase in transportation & warehousing services. Goods prices rose 2.0% in April and were largely connected to higher energy prices. Also in April, the U.S. Import Price Index rose 1.9%, including a 16.3% gain in fuel import prices. Export prices rose 3.3% in April and were broad based.

## SALES

- Consumer spending continues to hold up as retail sales increased 0.5% in April. Auto sector sales slipped (-0.4%), leaving sales ex-auto up 0.7%. Higher prices drove up sales at gas stations (+2.8%) and grocery stores (+0.7%), but sales also grew at electronics & appliance stores (+1.4%), sporting goods, music, & book stores (+1.4%), online retailers (+1.1%), and bars & restaurants (+0.6%).

## IT WILL ALL COME OUT IN THE WARSH

*With labor markets holding up and inflation still running quite hot, the Fed held rates steady at the April FOMC meeting. Kevin Warsh has now been sworn in as the 17<sup>th</sup> Chairman of the Federal Reserve, and he may effect changes to the frequency and content of Fed communication. Based on the near term economic outlook, the Fed is expected to remain on hold through at least year end.*

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