Economic Landscape

August 2026

MANUFACTURING

- The ISM Manufacturing PMI surged to 55.6 in July – its highest reading since May 2022 – marking seven consecutive months of growth. New Orders (56.7), Backlog of Orders (55.0), and New Export Orders (53.0) reflect growing demand in July, while Customers' Inventories remain too low. Production rose 6.3 points (58.5) and Employment (52.8) moved into expansion for the first time in 33 months. The Prices index (71.1) eased by 1.9 points in July but still points to very elevated input costs.
- U.S. industrial production expanded by 0.2% in July. Factory output also advanced 0.2% driven by a 0.7% surge in durable goods production. Broader industrial performance was supported by gains in mining production (+0.2%) and utilities output (+0.5%). Capacity utilization edged up to 76.0%, a level 2.2 percentage points below its 1972-2025 average, signaling available slack.

LABOR MARKETS

- The U.S. labor market softened in July as total nonfarm payrolls contracted by 23,000, well below the consensus forecast of an 80,000 gain. Downward revisions to the prior two months account for 103,000 fewer jobs than reported previously. A significant driver of the headline decline was a 53,000 drop in government employment, whereas private sector hiring remained slightly positive (+30,000) thanks to gains in construction (+22,000) and health care (+22,600) offsetting losses in retail, financial services, and leisure and hospitality. Although the unemployment rate dipped to a 13-month low of 4.1%, the drop reflected a shrinking labor force (-264,000) rather than organic job expansion. Wage growth also cooled, with average hourly earnings edging up just 0.1% for the month to bring the annual pace down to 3.2%.

PRICES

- Headline Consumer Price Index (CPI) rose 0.1% in July, bringing the twelve-month rate down to 3.4% as a 1.5% drop in energy costs helped offset modest gains in food (+0.1%). The food index rose 0.1% in July, after rising 0.2% in June as the cost of dining out rose 0.3% in July, while grocery prices decreased by 0.1%. Core CPI met expectations with a 0.2% monthly increase, reflecting gains in the indices for shelter, medical care, airfare, communication, education, and recreation. Year over year core CPI is up by 2.5%.
- The Producer Price Index (PPI) was unchanged in July. A 0.2% increase in the index for services and a 2.2% advance in prices for construction offset a 0.7% decrease in the index for goods. U.S. import prices decreased 0.4% in July as lower fuel import prices more than offset higher nonfuel imports. The index for U.S. export prices declined 1.3% in July as the 1.0% rise in agricultural prices was outweighed by the 1.5% decline in nonagricultural export prices.

SALES

- U.S. retail and food services sales declined 0.6% in July, missing expectations for a 0.1% gain. The headline weakness was primarily driven by lower gas station activity (-0.9%) and a pause in auto sales (-1.8%), alongside drops in electronics & appliance stores (-0.5%) and online retailer (-2.2%) sales that were heavily distorted by Amazon Prime Day shifting from July to June. Despite these drags, sales increased in several core categories including clothing stores (+1.9%), health & personal care stores (+0.7%), and bar & restaurant spending (+0.5%).

NO RESPONSE REQUIRED

The U.S. economy remains resilient, with firmer manufacturing, normalizing labor demand, and moderate consumer spending. While soft payroll growth and elevated input costs remain headwinds, easing underlying inflation pressures reduce downside risks. With stable growth and moderating inflation, the Fed is likely to remain on hold near term.

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