Economic Landscape

July 2026

MANUFACTURING

- The June ISM Manufacturing PMI eased slightly from 54.0 to 53.3 but marked its sixth consecutive month of expansion. Demand slowed as new orders slipped to 56.0, while lean customer inventories at 42.3 support the case for future orders to rebuild stockpiles. The Prices Index dropped from 82.1 to 73.0, reflecting easing in input prices and supply chain disruptions.
- U.S. industrial production ticked up a modest 0.1% in June. Factory output was completely flat for the month as a 0.2% increase in nondurable goods - led by petroleum and coal products - was entirely offset by a 0.1% decline in durable goods like machinery and electrical equipment. Production in the mining and utilities sectors expanded by 0.4% in June, with mining capitalizing on a robust 7.5% annualized growth rate for the second quarter. Overall capacity utilization held steady at 76.1%, which sits 3.3 percentage points below its long-run historical average and signals that ample production slack remains in the economy.

LABOR MARKETS

- The U.S. labor market cooled significantly in June as nonfarm payrolls added just 57,000 jobs – well short of expectations. While payrolls increased in professional and business services (+36,000), social assistance (+25,000), and health care (+22,000), the gains were heavily offset by weaker than usual seasonal hiring in leisure and hospitality (-61,000). Revisions to April and May data resulted in a combined 74,000 fewer jobs than previously reported. Average hourly earnings grew at a steady 0.3% pace for June and 3.5% year.

PRICES

- The June Consumer Price Index (CPI) fell 0.4% from May, marking the largest one-month decrease since April 2020 and slowing the year-over-year headline rate to 3.5%. The drop was heavily driven by a 5.7% decline in energy costs as the conflict-driven price shock began to fade, which completely offset minor increases in shelter and food. Excluding energy and food, core CPI was flat for June and slowed to 2.6% over 12 months, restrained by falling prices for apparel, used cars, and auto insurance.
- The Producer Price Index (PPI) fell 0.3% in June, as the 1.4% drop in the index for goods – with declines in foods (-0.6%) and energy (-6.4%) - more than offset the 0.2% increase in the service price index. U.S. import prices rose 0.3% in June, with nonfuel import prices up 0.4% and prices for imported fuels down 0.4%. Meanwhile, U.S. export prices decreased 0.6% in June, with the 0.2% rise in agricultural export prices eclipsed by a 0.7% decrease across nonagricultural exports heavily attributed to lower prices for industrial supplies and materials.

SALES

- Headline retail sales rose a modest 0.2% in June, as a sharp 5.3% drop in gas station receipts due to falling pump prices held back overall growth. Other categories remained strong including a 1.9% gain in auto sector sales and increases in electronics & appliance stores (+0.8%); home improvement stores (+0.1%); sporting goods, hobby, music, & book stores (+1.3%); online retailers (+1.9%); and bars & restaurants (+0.1%).

FED ON THE FENCE

While the broader labor market continued to stabilize, job growth trended cooler in June. Inflation remains the primary challenge to the economy, and Chairman Warsh has reiterated his "no tolerance" for elevated prices. Inflationary pressures should get some relief in the coming months from the fading impacts of tariffs, but upside risks from Middle East fighting and relentless AI demand could raise the inflation outlook and prompt the FOMC to jump off the fence and initiate a tightening cycle.

First Commonwealth Advisors