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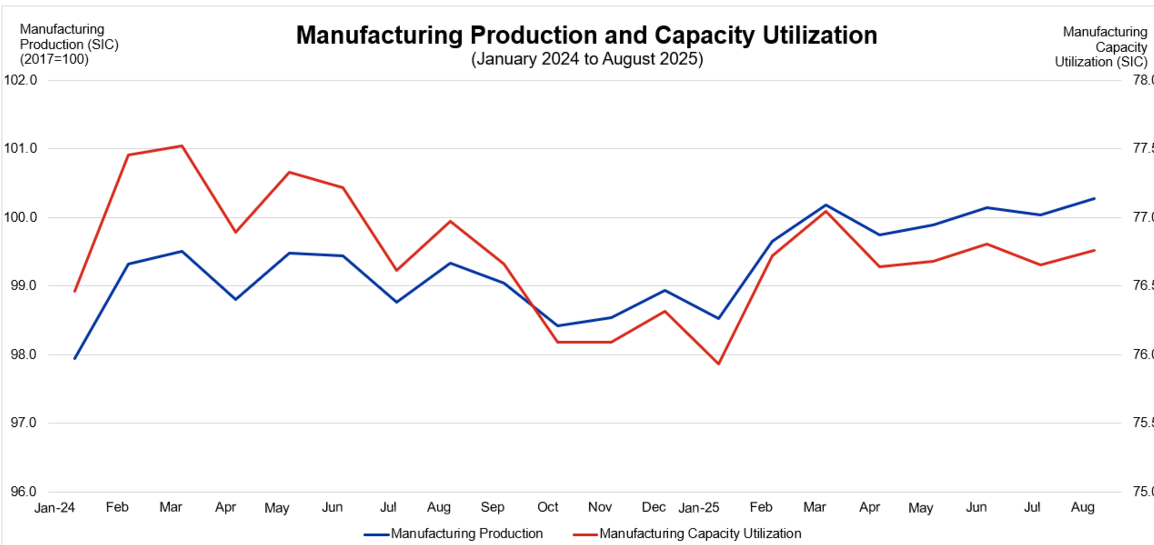
MONDAY ECONOMIC REPORT

Manufacturing Improvement Slow Moving

September 22, 2025 – SHARE

By Victoria Bloom and Michael Green

Manufacturing-Focused Weekly Toplines



- **Manufacturing output recovers from April's drop:** Manufacturing output increased 0.2% after edging down 0.1% in July. At 100.3% of its 2017 average, manufacturing production in August rose just 0.9% from the same month last year. Capacity utilization for manufacturing inched up to 76.8%, up 0.1 percentage point from July and advanced 1.2% over the past year, remaining 1.4 percentage points below its long-term average.
    - **Why it matters:** Taking four months to recover, August's manufacturing output level finally surpassed March's level of 100.2%. After a strong early gain of 3.4% in the first quarter, activity slowed to 2.2% in the second quarter, weakening long-term gains.

- **Philadelphia manufacturing activity brightens, while New York's dims:** In September, the index for current general business activity for the Philadelphia Federal Reserve region expanded notably, rising from -0.3 to 23.2, its highest reading since January. Meanwhile, the same index for New York declined for the first time since June, falling nearly 21 points to -8.7.
    - **What it means:** After manufacturing activity improved dramatically in July for both regions, New York's improvement was short-lived, declining in August. While Philadelphia's growth appears to have momentum, with new orders

rising from -1.9 to 12.4, New York's manufacturing activity appears to have hit a snag in August, despite expectations of improvement in activity in July.

- **Manufacturers' sales and inventories rise in July:** Manufacturers' sales rose 0.9% from June and 1.8% compared to July 2024. Meanwhile, manufacturers' inventories increased 0.3% in July and 1.5% from the same month a year ago. Manufacturers' inventories/sales ratio stood at 1.56 at the end of July, slightly lower than the 1.57 recorded in the prior month and July 2024.
    - **Why it matters:** In July, manufacturers increased inventory levels during the administration's pause on higher tariff rates—but only nominally. While increased tariffs remain broad based, manufacturers have largely stayed in a wait-and-see position before making major shifts to inventory levels.

- **Significant divergences in import costs for different manufacturing sectors:** In August, U.S. import prices for manufacturing rose 0.2% over the year, but those costs varied dramatically by sector. Petroleum and coal products manufacturing experienced the most significant over-the-year U.S. import price declines in August, falling 14.6%. On the other hand, the greatest yearly increase in U.S. import prices occurred in primary metal manufacturing, which advanced 11.3% from August 2024.
    - **What it means:** As exhibited in the headline producer and consumer price indexes, lower prices for certain items are muting price hikes for many tariffed goods, but those higher costs are becoming more apparent. Furthermore, the significant price hikes on certain imported goods continue to burden sectors unevenly.

- **The Federal Reserve cuts rates amid growth in employment risks:** The Federal Open Market Committee lowered its interest rate target range by 25 basis points to 4.00%–4.25% at its September meeting. In a change to its previous statement, the FOMC noted that job gains have slowed, and the unemployment rate has edged up. At the same time, inflation has moved up. Nonetheless, the committee judged that downside risks to employment have risen, which has shifted the balance of risks and provided support for the decision to lower its interest rate target.
    - **Why it matters:** Like the July decision, this decision was not unanimous. One FOMC member, Stephen Miran, dissented, desiring to lower the target range by 50 basis points. Six Federal Reserve officials project there will be no additional rate cuts in 2025, while nine anticipate an additional 50 basis points worth of cuts in 2025. Amid significant divergences in the FOMC's summary of economic projections, the market anticipates another 25-basis-point rate cut at the October meeting.

This Week's Economic Indicators

Monday, Sept. 22
None

Tuesday, Sept. 23
S&P Global Flash U.S. Manufacturing PMI
Richmond Fed Survey of Manufacturing Activity
Existing Home Sales

Wednesday, Sept. 24
New Home Sales

Thursday, Sept. 25
Wholesale and Retail Inventories (Advance)
Durable Goods (Advance)
GDP (Q2 2025 Third Estimate)
Kansas City Fed Manufacturing Survey

Friday, Sept. 26
PCE Price Index
Personal Income and Outlays
University of Michigan Consumer Sentiment Index (Final)

Deeper Dive

- **Industrial Production and Capacity Utilization:** Industrial production ticked up 0.1% in August, while manufacturing output increased 0.2% after edging down 0.1% in July. At 100.3% of its 2017 average, manufacturing production in August rose just 0.9% from the same month last year. Capacity utilization for manufacturing inched up to 76.8%, up 0.1 percentage point from July and advanced 1.2% over the past year. Capacity utilization remains 1.4 percentage points below its long-term average from 1972 to 2024.

  How is production faring for different market groups?

- **Philadelphia Fed Manufacturing Business Outlook Survey:** In September, Philadelphia's regional manufacturing activity expanded notably following weakness in August. Rising from -0.3 to 23.2, the index for current general business activity recorded its highest reading since January. Just 16.7% of firms reported decreases in activity this month, while 39.9% noted increases. The indexes for new orders and shipments both improved, rising from -1.9 to 12.4 and from 4.5 to 26.1, respectively. Meanwhile, the employment index was little changed at 5.6, but the average employee workweek index rose 10.2 points to 14.9.

  Are manufacturers in Philadelphia more optimistic about the future?

- **Empire State Manufacturing Survey:** Manufacturing activity in New York state declined in September for the first time since June, with the headline general business conditions index falling nearly 21 points to -8.7. The new orders index plummeted 35 points to -19.6, while the shipments index dropped nearly 30 points to -17.3, the lowest levels for both indexes since April 2024, indicating significant reductions in orders and shipments. Unfilled orders decreased further, from -5.5 to -6.9, while inventories increased 1.5 points to -4.9 in September, indicating that business inventories continue to shrink but at a slightly slower pace. Delivery times stayed the same, but supply availability slipped 3.3 points to -8.8.

  How did other New York manufacturing indicators fare?

- **U.S. Import and Export Price Indexes:** U.S. import prices rose 0.3% in August, after advancing 0.2% in July, with higher nonfuel import prices driving the increase. Over the past year, import prices stayed the same. Meanwhile, U.S. export prices stepped up 0.3% in August, with nonagricultural export prices driving the increase. Over the past year, export prices climbed 3.4%, the largest over-the-year rise since December 2022.

In August, U.S. import prices for manufacturing rose 0.2% over the year, but with significant divergences in prices across the industry. Petroleum and coal products manufacturing experienced the most significant over-the-year U.S. import price declines in August, falling 14.6%. On the other hand, the greatest yearly increase in U.S. import prices occurred in primary metal manufacturing, which advanced 11.3% from August 2024. Meanwhile, U.S. export prices for manufacturing in August grew 3.3% over the year, with primary metal manufacturing export prices exhibiting the largest rise (27%).

Get more context.

- **FOMC Statement:** The Federal Open Market Committee lowered its interest rate target range by 25 basis points to 4.00%–4.25% at its September meeting. In a change to its previous statement, the FOMC noted that job gains have slowed, and the unemployment rate has edged up. At the same time, inflation has moved up. Nonetheless, the committee judged that downside risks to employment have risen, which has shifted the balance of risks and provided support for the decision to lower its interest rate target. One FOMC member, Stephen Miran, dissented, desiring to lower the target range by 50 basis points.

  What did Federal Reserve Chairman Jerome Powell say in his press conference?

- **New Residential Construction:** Building permits declined 3.7% in August and 11.1% over the year. Permits for single-family homes in August decreased 2.2% from July and 11.5% over the year. Meanwhile, permits for buildings with five or more units dropped 6.7% from July and 10.8% over the year.

  How did housing starts and completions fare in August?

- **Manufacturing Inventories and Sales:** In July, manufacturers' sales rose 0.9% from June and 1.8% compared to July 2024. Manufacturers' inventories increased 0.3% in July and 1.5% from the same month a year ago. Manufacturers' inventories/sales ratio stood at 1.56 at the end of July, slightly lower than the 1.57 recorded in the prior month and July 2024.

- **Retail Sales:** In August, U.S. retail and food services sales stepped up 0.6%, matching the positive revision to July. Retail and food service sales increased 5% from August 2024. Sales between June and August 2025 rose 4.5% from the same period last year. Retail sales excluding motor vehicle, parts and gas stations advanced 0.7% in August and 5.4% from last year. Motor vehicle and parts sales moved up 0.5% over the month and 5.6% over the year. Nonstore retailers jumped 2.0% over the month and 10.1% in the past year, while food services and drinking places climbed 0.7% from July and 6.5% from August 2024.

- **NAHB Housing Market Index:** Builder confidence in the market for new single-family homes was 32 in September, unchanged from August. Components of the Housing Market Index posted mixed results in September. Present sales conditions stayed the same from August at 35, while expected sales in the next six months increased two points to 45. Traffic of prospective buyers ticked down one point to 21. The share of builders cutting prices was 39% in September, up from 37% in August and the highest percentage in the post-pandemic period. Meanwhile, the average price reduction was 5%, unchanged since November 2024.

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