

ISM Manufacturing Breaks Into Expansionary Territory, Exceeding PNC Expectations for January 2025

- **The ISM Manufacturing PMI increased to 50.9 in January 2025, breaking above the expansionary threshold of 50.0 for the first time since September 2022**
- **New Orders for January 2025 strengthened to 55.1, posting the largest 6-month increase among the survey's component indices**
- **Production increased to a reading of 52.5 in the January 2025 ISM Manufacturing PMI report**
- **Hiring saw the strongest monthly gain across ISM Manufacturing PMI categories, rising to 50.3 for January 2025**

The ISM Manufacturing PMI rose to 50.9 for January 2025, continuing a trend of strength that began in the final months of last year. January's report represents the third consecutive monthly gain for the topline index and is rising on multipronged support across the survey's current Production, New Orders, and Employment categories. Manufacturers' Inventories were drawn down, reinforcing results published in the 2024Q4 GDP report last week. And manufacturers' own costs appear to be under renewed pressure with a second consecutive monthly gain in the Prices category of the January 2025 report.

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. January 2025's topline reading of 50.9 is the first result to break above the 50.0 threshold since September 2022 (51.0; October 2022 = 50.0).

The ISM Manufacturing PMI's Employment component index rose in January 2025 to a reading of 50.3. This reading on manufacturers' hiring was the strongest result for this component index since May 2024 (50.4) and follows an average of 45.4 for the second half of last year. Hiring among manufacturers will be the truest test as to whether the industry's burgeoning turnaround has staying power into the new year. The threat of tariffs raising the cost of foreign-produced goods has the potential to bolster the demand seen by U.S. producers – and across all segments of the domestic manufacturing base given the sweeping nature of the tariffs proposed.

New Orders for manufacturers posted a third consecutive monthly result in expansionary territory in January 2025 with a reading of 55.1 for the month. The New Orders component has not seen a result this strong since May 2022 (55.1), as the U.S. economy was just beginning to re-open after pandemic-induced business closures, and thus consumer spending restrictions. The New Orders category is a forward-looking indicator from the ISM Manufacturing PMI, indicating that demand for manufacturers' wares is expected to be healthy

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in the months to come and as those orders take time to be fulfilled. The strength in New Orders couples with the positive signal from the Production sub-index's bounce to 52.5 in January 2025 to suggest that U.S. manufacturing is emerging from the significant weakness endured by the industry over much of the past two years.

With rising demand and production in manufacturing has come renewed cost pressures. The January 2025 ISM Manufacturing PMI's Commodity Prices component index rose to 54.9 – its highest result since May 2024 (57.0). Manufacturers' price pressures had fallen as low as a 48.3 reading in the Commodity Prices sub-index in September 2024, but January 2025's result builds on the 2024Q4 average of 52.5. The above-noted potential that tariffs are implemented on all manner of imports into the U.S. will show up in production costs first, before inevitably flowing through to consumer prices. The ISM Manufacturing PMI report, therefore, will be must-see economic viewing in the months to come.

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