



U.S. Manufacturing Sector Continues to Contract

The latest Manufacturing PMI Report paints a picture of a domestic manufacturing sector in duress.

The U.S. manufacturing sector continues to show signs of tariff fatigue and other challenges that are impacting bottom lines, slowing production and cutting into future investment. The red flashing light has been signaling for most of 2025, but the Institute for Supply Management's latest [Manufacturing PMI Report](#) solidifies what many have been thinking: domestic manufacturers are facing some steep challenges right now.

Released last week, the report placed the Purchasing Managers' Index (PMI) at 48.7% in October—a 0.4 percentage drop compared to September's 49.1% reading. For context, any reading below 50 generally signals that factory activity is shrinking, although ISM notes in its latest report that a "PMI above 42.3%, over a period of time, generally indicates an expansion of the overall economy."

By the Numbers

According to ISM, the overall national economy continued its expansion for the 66th month after one month of contraction in April 2020. The new orders index contracted for the second

month in October following one month of growth, while the production Index (48.2%) was 2.8 percentage points lower than September's figure of 51%.

The prices Index remained in expansion (or 'increasing' territory), registering 58%, down 3.9 percentage points compared to the reading of 61.9% reported in September. Other key measures that shifted over the last month included:

- The backlog of orders index registered 47.9% in October, up 1.7 percentage points compared to the 46.2% recorded in September.
- The employment index registered 46%, up 0.7 percentage points from September's figure of 45.3%.
- The supplier deliveries index indicated slower delivery performance for the third consecutive month after one month in 'faster' territory, which was preceded by seven consecutive months in 'slower' territory.

"In October, U.S. manufacturing activity contracted at a faster rate, with contractions in production and inventories leading to the 0.4-percentage point decrease of the [PMI]," Susan Spence, chair of ISM's Manufacturing Business Survey Committee, said in a [press release](#).

"A chain reaction of one-month index improvements started with new orders in August and flowed to production in September," she continued. "In October, it manifested in a 1.7-percentage point increase in the backlog of orders index. These short gains have not appeared to translate into sustained growth for the sector, a reflection of continuing economic uncertainty."

Just Two Expansion Areas

The U.S. manufacturing sector contracted in October for the eighth consecutive month after two months of expansion (preceded by 26 months of contraction). Of the five subindexes that directly factor into the index, supplier deliveries is the only one currently in expansion territory.

According to ISM, 58% of the manufacturing sector's gross domestic product (GDP) contracted in October, down from 67% the prior month. However, it says the percentage of GDP in strong contraction (registering a composite PMI of 45% or lower), now sits at 41%—up from just 13% from September.

"The share of sector GDP with a PMI at or below 45% is a good metric to gauge overall manufacturing weakness," Spence pointed out. "Of the six largest manufacturing industries, only two—food, beverage & tobacco products, and transportation equipment—expanded in October."

Most manufacturers are also paying more for raw materials this year, with electrical equipment, appliances & components, computer & electronic products, transportation equipment, and chemical products all making the list of industries shelling out more money for those core needs right now.

Tariffs Take a Toll

The verbatim survey responses paint a picture of a manufacturing sector under duress. "Business continues to remain difficult, as customers are cancelling and reducing orders due to uncertainty in the global economic environment regarding the ever-changing tariff landscape," one chemical products manufacturer said.

"Tariffs continue to be a large impact on our business. The products we import are not readily manufactured in the U.S., so attempts to reshore have been unsuccessful," a machinery manufacturer pointed out. "Overall, prices on all products have gone up, some significantly. We are trying to keep up with the wild fluctuations and pass along what costs we can to our customers."

Industry experts agree. "Tariffs have been roiling the sector for much of this year," Stephen Stanley, chief U.S. economist at Santander U.S. Capital Markets, told [Reuters](#). "The comments from individual respondents suggest that firms are exhausted by all of the back and forth on tariffs since the beginning of April and are suffering mightily as their customers have pulled back significantly."