

August ISM Manufacturing Index

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

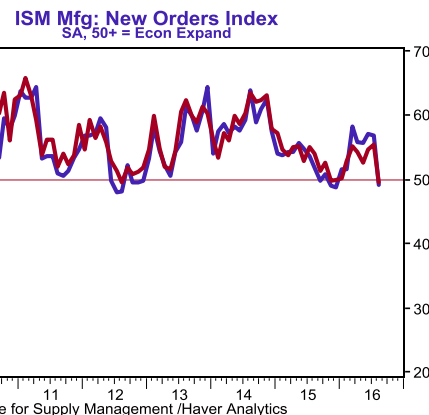
- The ISM manufacturing index declined to 49.4 in August, coming in well below the consensus expected level of 52.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all lower in August. The new orders index fell to 49.1 from 56.9 in July, while the production index declined to 49.6 from 55.4. The employment index moved lower to 48.3 from 49.4, and the supplier deliveries index slipped to 50.9 from 51.8 in July.
- The prices paid index declined to 53.0 in August, from 55.0 in July.

Implications: Don't be surprised if the pouting pundits of pessimism (and maybe even a few Fed governors) point to today's report as reason to hold off on raising rates when the Fed meets later this month. The largest single-month decline in the ISM manufacturing index in more than two years brought the index back below 50, signaling contraction after five consecutive months of expansion. But while the August report came in well below the consensus expectation for continued growth, it is important to remember that the ISM manufacturing report is a survey-based measure, and month-to-month changes can reflect sentiment as much as actual changes in activity. And a reading below 50 doesn't signal an economic recession. For example, the manufacturing index reported readings below 50 for each month in the fourth quarter of 2015, while the economy grew, albeit slowly. All of the major measures of activity declined in August, with the two most forward looking measures showing the largest drops. That said, each index had a reading just below 50, suggesting that the pace of declines was modest. Given continued gains in total employment, rising wages, and healthy consumer spending, we expect the ISM manufacturing index to rise back into expansion territory in the coming months. On the inflation front, the prices paid index remained above 50, signaling continued inflation, though the decline to 53.0 from 55.0 in July shows prices rising at a slower pace than in recent months. Taken as a whole, today's report left plenty to be desired, but it is far from a sign of looming doom. In other news today, construction was unchanged in July but up 0.2% including upward revisions to prior months. The upward revisions to prior months were led by commercial construction and the effect is enough to boost our tracking of Q2 real GDP growth to a 1.3% annual rate from last week's government estimate of 1.1%. The gains in commercial construction continued in July, led by offices and manufacturing facilities. Home improvements were also up in July, but overall activity was held down by a drop in government projects on schools and power plants.

ISM Mfg: PMI Composite Index
 SA, 50+ = Econ Expand



ISM Mfg: Production Index
 SA, 50+ = Econ Expand



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Aug-16	Jul-16	Jun-16	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	49.4	52.6	53.2	51.7	51.5	51.0
New Orders	49.1	56.9	57.0	54.3	55.5	51.7
Production	49.6	55.4	54.7	53.2	53.6	54.0
Inventories	49.0	49.5	48.5	49.0	47.4	48.5
Employment	48.3	49.4	50.4	49.4	49.1	50.5
Supplier Deliveries	50.9	51.8	55.4	52.7	51.9	50.4
Order Backlog (NSA)	45.5	48.0	52.5	48.7	49.1	46.5
Prices Paid (NSA)	53.0	55.0	60.5	56.2	57.1	39.0
New Export Orders	52.5	52.5	53.5	52.8	52.6	46.5

Source: National Association of Purchasing Management