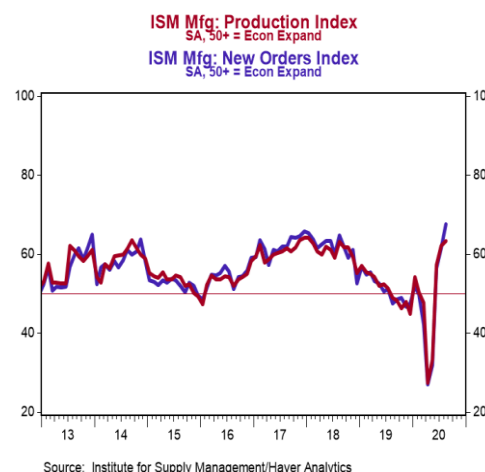
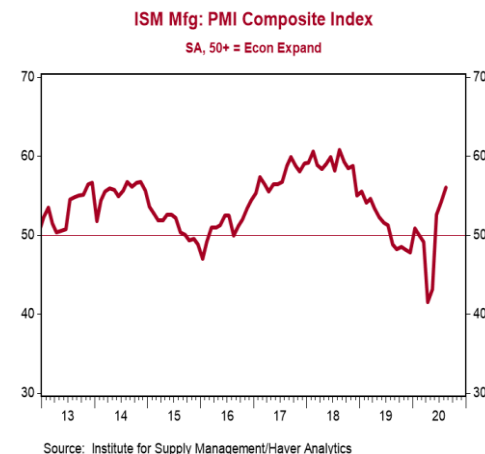


August ISM Manufacturing Index

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- The ISM Manufacturing Index rose to 56.0 in August, beating the consensus expected 54.8. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all higher in August. The new orders index rose to 67.6 from 61.5 in July, while the production index increased to 63.3 from 62.1. The supplier deliveries index moved higher to 58.2 from 55.8, and the employment index increased to 46.4 from 44.3 in July.
- The prices paid index rose to 59.5 in August from 53.2 in July.

Implications: The ISM manufacturing index moved further into expansion territory in August, as demand and consumption continue to drive progress. And the growth in August was broad-based, with fifteen of eighteen industries reporting expansion while three reported contraction (two reported no change). Comments from survey respondents were largely positive, with notes like “Business is very good,” “current sales...substantially stronger than forecasted,” and “strong demand from existing and new customers.” Looking at the major indices, the two most forward looking – new orders and production – once again led the charge in August, both comfortably above 60.0 and hitting multi-year highs (the new orders index recorded the highest reading since January of 2004!). Employment, meanwhile, is on the “bad, but not as bad” path, rising to 46.4 in August from 44.3 in July. We balance data from a number of labor market indicators, and based on the available data to-date, we are projecting that Friday’s report on nonfarm payrolls will show a gain of 1.300 million jobs in August, which would move the unemployment rate down to around 9.5% from 10.2% in July. The index for supplier deliveries, which rises when companies have difficulty meeting demand on a timely basis, and moves lower as delays ease, turned higher in August after declines in each of the last three months. The coronavirus and related shutdowns have wreaked havoc on supply chains, in particular, transportation challenges, labor shortages, and limitations on the number of workers who can be present at any given time due to safety concerns. These challenges have generated a sustained headwind to the process of getting back to business and are expected to remain in the near future, representing one of the biggest headwinds to faster production and inventory growth. This is especially notable as the customer inventories index – where a reading below 50 suggests customer inventory levels are too low – fell to 38.1 in August, the lowest reading for that index since mid-2010. On the inflation front, the prices paid index rose to 59.5 from 53.2 in July, as rising costs for aluminum, copper, and crude oil led the index. This, too, is in part a reflection of the supplier delivery difficulties, as rising costs to acquire and produce input materials are being passed along to manufacturing companies. Recovery is clearly under way, and now the focus shifts towards the ability of companies to return to business and meet demand. It’s not smooth sailing yet, but the path ahead continues to improve. In other news this morning, construction spending rose 0.1% in July (+0.7% including upward revisions to prior months). A jump in homebuilding was partially offset by a drop in public spending on highways & streets and educational facilities.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Aug-20	Jul-20	Jun-20	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	56.0	54.2	52.6	54.3	49.4	48.8
New Orders	67.6	61.5	56.4	61.8	47.8	47.6
Production	63.3	62.1	57.3	60.9	48.5	48.9
Inventories	44.4	47.0	50.5	47.3	48.2	48.4
Employment	46.4	44.3	42.1	44.3	39.4	47.6
Supplier Deliveries	58.2	55.8	56.9	57.0	63.3	51.6
Order Backlog (NSA)	54.6	51.8	45.3	50.6	45.6	46.3
Prices Paid (NSA)	59.5	53.2	51.3	54.7	46.3	46.0
New Export Orders	53.3	50.4	47.6	50.4	45.5	43.3

Source: National Association of Purchasing Management