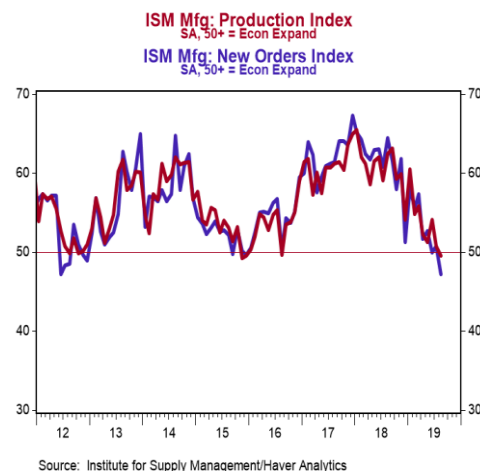
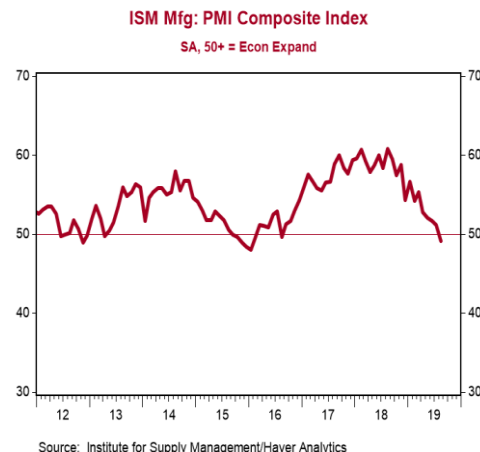


# August ISM Manufacturing Index

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

- The ISM Manufacturing Index declined to 49.1 in August, lagging the consensus expected 51.3. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all lower in August. The employment index fell to 47.4 from 51.7 in July, while the new orders index declined to 47.2 from 50.8. The supplier deliveries index moved lower to 51.4 from 53.3 and the production index fell to 49.5 from 50.8 in July.
- The prices paid index increased to 46.0 in August from 45.1 in July.

**Implications:** An ugly report from the manufacturing sector, as negative trade-related sentiment helped push the ISM manufacturing index below 50 for the first time in three years. That said, there are a few things to remember when evaluating today’s report. First, the ISM report is a survey, and can be impacted by sentiment (China trade concerns) as much as actual activity. Second, we have seen the index dip below 50 earlier in this recovery, without derailing the expansion. In 2012, the index fell below 50 on three occasions, once again in 2013, and 2015 saw the index fall into the 40’s for five consecutive months. Each time, the economy kept growing. Keep that in mind when you see headlines stating this is the sign a recession has started. Nine of eighteen industries reported growth in August, while seven reported contraction (two reported no change). The two most forward-looking indices - new orders and production - both fell below fifty. Despite the slowdown, we expect a return to growth in the months ahead. Why? First, while China trade tensions continue to pepper respondents’ comments, they note that supply-chain adjustments are tempering growth as they move manufacturing out of China. This readjustment process is a short-term factor that could keep growth subdued in the months ahead, but ultimately puts increased pressure on China to finalize a trade deal. Second, and more important, the ISM data don’t match what we are seeing from other reports. The latest report on personal consumption shows goods consumption is up at a 10.1% annualized rate so far in 2019, the fastest pace to start a year going all the way back to 1983! So if consumers are clearly buying, and companies are apparently (according to today’s report) not producing, something has got to give. Given that we are also not seeing a pickup in layoffs – something you would expect to see if business significantly slowed - we lean towards the hard data over the survey output when it comes to judging the health of the economy. The hard data is also why, despite the employment index declining to 47.4 from 51.7 in July, we are forecasting that nonfarm payrolls rose a healthy 163,000 in August. Finally, on the inflation front, the prices paid index came in at 46.0 in August, held lower by metals (namely steel and aluminum). Here the data match reports from other sources. Stagnant prices for goods continue to partially offset faster price growth for services, resulting in overall producer prices remaining below the Fed’s 2% inflation target. Taken as a whole, the sum of the data continues to point towards growth, regardless of how fearful survey respondents get. In other news this morning, construction spending rose 0.1% in July. A pickup in homebuilding and government spending on educational facilities was partially offset by a slowdown in spending on highways and streets.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Aug-19	Jul-19	Jun-19	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Business Barometer</b>	49.1	51.2	51.7	50.7	52.0	60.8
<b>New Orders</b>	47.2	50.8	50.0	49.3	51.6	64.5
<b>Production</b>	49.5	50.8	54.1	51.5	52.3	62.4
<b>Inventories</b>	49.9	49.5	49.1	49.5	50.7	55.4
<b>Employment</b>	47.4	51.7	54.5	51.2	52.9	57.8
<b>Supplier Deliveries</b>	51.4	53.3	50.7	51.8	52.7	63.9
<b>Order Backlog (NSA)</b>	46.3	43.1	47.4	45.6	48.1	57.5
<b>Prices Paid (NSA)</b>	46.0	45.1	47.9	46.3	49.4	72.1
<b>New Export Orders</b>	43.3	48.1	50.5	47.3	49.0	55.2

Source: National Association of Purchasing Management