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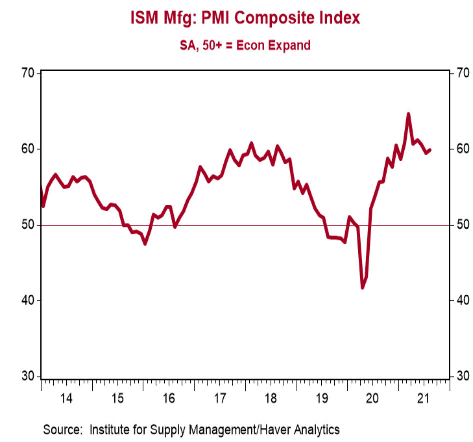
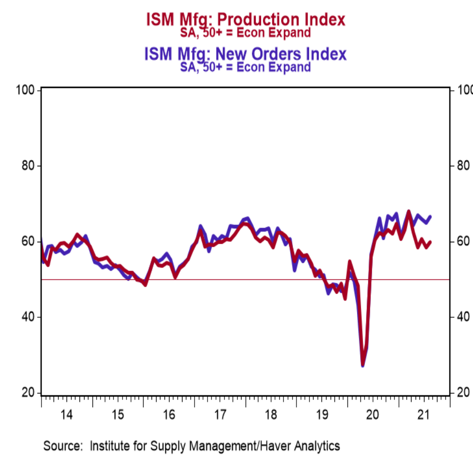
August ISM Manufacturing Index

- The ISM Manufacturing Index rose to 59.9 in August, beating the consensus expected 58.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were mixed in August, but nearly all above 50, signaling growth. The production index rose to 60.0 from 58.4 in July, while the new orders index rose to 66.7 from 64.9. The employment index fell to 49.0 from 52.9, and the supplier deliveries index fell to 69.5 from 72.5 in July.

- The prices paid index fell to 79.4 in August from 85.7 in July.





Implications: The manufacturing sector continued to expand in August, and at a faster pace than expected, as factories continued to battle supply chain issues to meet strong demand for their goods. Gains were broad-based, with fifteen of eighteen industries reporting growth. While the new orders and production indices both registered gains and now sit at or above 60, it's clear that the factory sector would be expanding even more rapidly if it weren't for a slew of factors holding back output. Respondent comments in August were dominated by widespread worries about disrupted supply chains, rapidly rising costs for inputs and transportation, shortages of raw materials across the board, and employers having trouble filling open positions. One respondent also mentioned that rising COVID cases are once again constraining production capacity at supplier factories abroad. These issues have all come together to keep manufacturing activity from rising quickly enough to meet the explosion of demand as the US economy reopens. This was most evident in the expanding backlog of orders, with the index for that measure rising to 68.2 in August, matching the second largest reading on record back to 1993. Long lead times on orders have also put pressure on customer inventories, which continued to shrink rapidly in August as businesses continued to rely on the goods they already had in warehouses. Keep in mind, businesses will eventually restock their shelves, which will be a big source of ongoing demand for manufactured goods as well as a tailwind for GDP growth. However, in the meantime, the employment index moving back into contraction territory in August signals that staffing troubles remain a persistent issue when it comes to ramping up production. Manufacturing is one of the worst hit sectors in the ongoing labor shortage, with job openings twice what they were pre-pandemic. One piece of good news in today's report is that the rate of price growth for inputs slowed, with the prices index falling to 79.4 in August from 85.7 in July, though it remains historically elevated. Sixteen of eighteen industries reported increased prices for raw materials. Looking at the details, only two commodities (lumber and wood) were reported lower in price while forty were reported up. In other employment news this morning, the ADP employment report showed 374,000 private-sector jobs gained in August. Plugging this report into our models suggests Friday's official jobs report will show a nonfarm payroll gain of 710,000. In other news this morning, construction rose 0.3% in July, very close to the consensus expected 0.2%. The increase in July was largely due to a big gain in home building, which more than offset declines for power and educational projects. In recent housing price news, the national Case-Shiller index rose 1.8% in June and is up 18.6% versus a year ago, both the fastest increases on record (dating back to 1975). Price gains were led by Phoenix, San Diego, and Seattle, with the slowest price gains in Chicago and Minneapolis. The FHFA index, which tracks homes financed by conforming mortgages, rose 1.6% in June and is up 18.8% in the past year, the largest twelve-month increase since records began in 1991. Finally, pending home sales, which are contracts on existing homes, declined 1.8% in July after a 2.0% drop in June, signaling moderation in existing home sales (counted at closing) in August.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Aug-21	Jul-21	Jun-21	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Business Barometer	**59.9**	59.5	60.6	60.0	61.1	55.6
New Orders	**66.7**	64.9	66.0	65.9	66.2	66.2
Production	**60.0**	58.4	60.8	59.7	61.4	62.4
Inventories	**54.2**	48.9	51.1	51.4	50.4	44.8
Employment	**49.0**	52.9	49.9	50.6	52.9	46.3
Supplier Deliveries	**69.5**	72.5	75.1	72.4	74.6	58.2
Order Backlog *(NSA)*	**68.2**	65.0	64.5	65.9	67.3	54.6
Prices Paid *(NSA)*	**79.4**	85.7	92.1	85.7	86.7	59.5
New Export Orders	**56.6**	55.7	56.2	56.2	55.6	53.3

Source: National Association of Purchasing Management