

U.S. Data Review

- ISM manufacturing: improved in August but still signaling contraction; prices remain elevated

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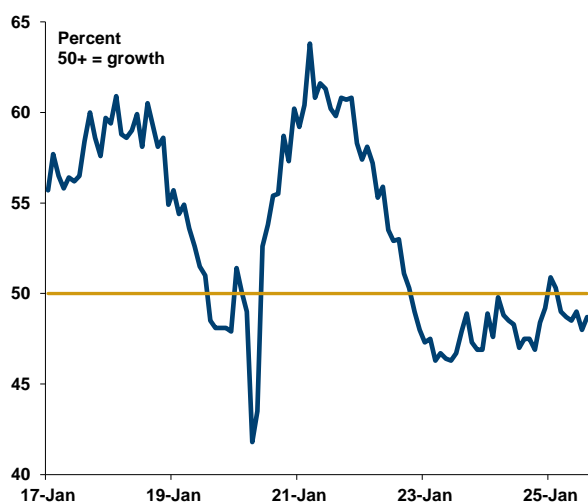
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ISM Manufacturing Index

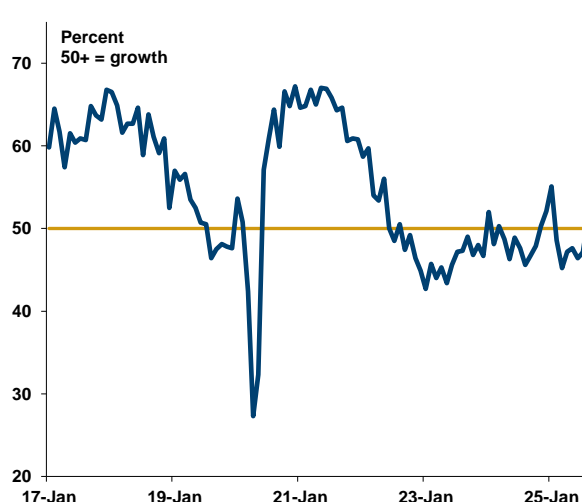
- The Institute for Supply Management's manufacturing index increased 0.7 percentage point to 48.7 percent in August, a touch softer than the Bloomberg economist survey expectation of an uptick to 49.0 percent. Despite the improvement, the ISM measure remained below the critical threshold of 50.0 percent for the sixth consecutive month (and 32nd in the past 34), signaling ongoing contraction in the broad factory sector (chart, below left). Similar to previous reports, uncertainty stemming from trade policy prevailed in comments from survey respondents, with "tariff" or "tariffs" mentioned numerous times as a constraint on business operations. On the point, firms noted that current levies have led to an increase in surcharges enacted by suppliers, caused a decrease in order flows, and hindered the ability to plan/schedule future activities.
- Of the five subindexes that directly factor into the composite's calculation, three indicated contraction in August, one less than in July. The new orders component surprised to the upside in the latest month, advancing 4.3 percentage points to 51.4 percent – its first expansionary reading since last January (chart, below right). That said, the latest development should be interpreted with some caution, with Susan Spence, Chair of the Institute for Supply Management Manufacturing Business Survey Committee, noting in the official release that "for every positive comment about new orders, there were 2.5 comments expressing concern about near-term demand, primarily driven by tariff costs and uncertainty." Looking further, after indicating expansion in the prior two months, the production component returned to contraction with a 3.6 percentage point decrease to 47.8 percent, limiting (to a degree) the increase in the composite from new orders (chart, next page, left). The employment component, meanwhile, posted a modest 0.4 percentage point increase to 43.8 percent, its seventh consecutive read below 50.0 percent (chart, next page, right). On account of the uncertain demand outlook, firms are continuing to engage in staff reduction, primarily through layoffs and leaving open positions unfilled.

ISM Manufacturing: Headline Index



Source: Institute for Supply Management via Haver Analytics

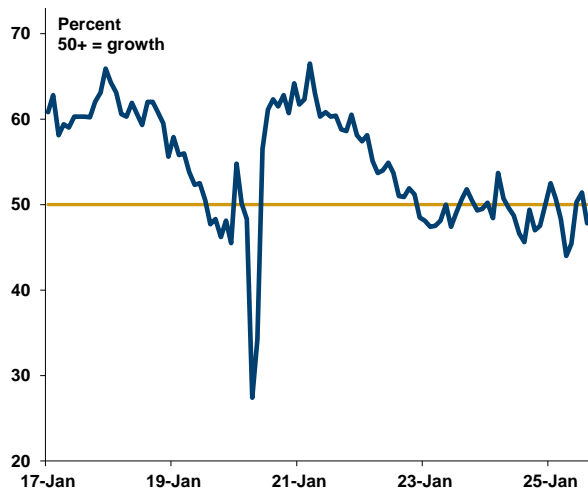
ISM Manufacturing: New Orders Index



Source: Institute for Supply Management via Haver Analytics

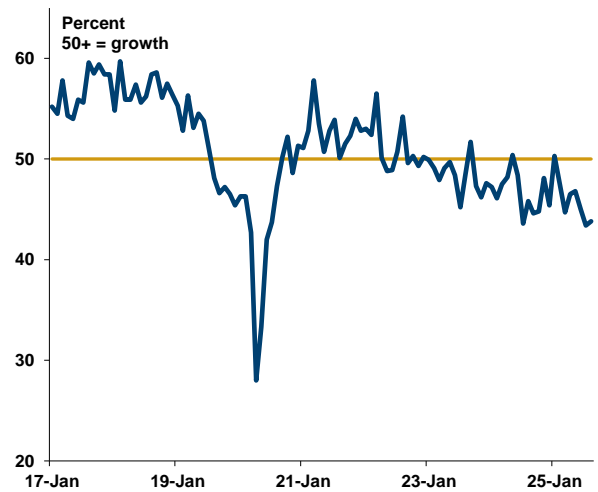
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ISM Manufacturing: Production Index



Source: Institute for Supply Management via Haver Analytics

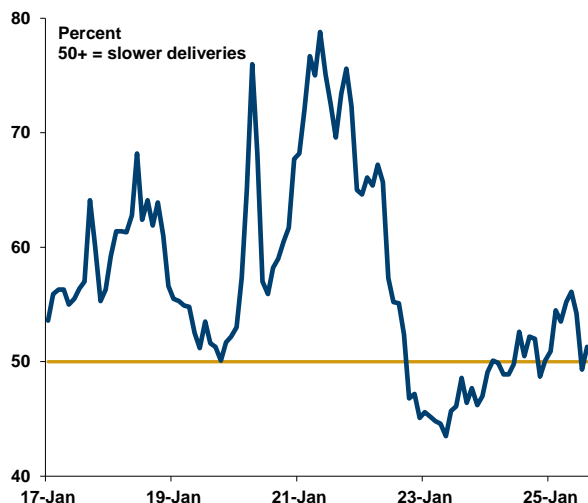
ISM Manufacturing: Employment Index



Source: Institute for Supply Management via Haver Analytics

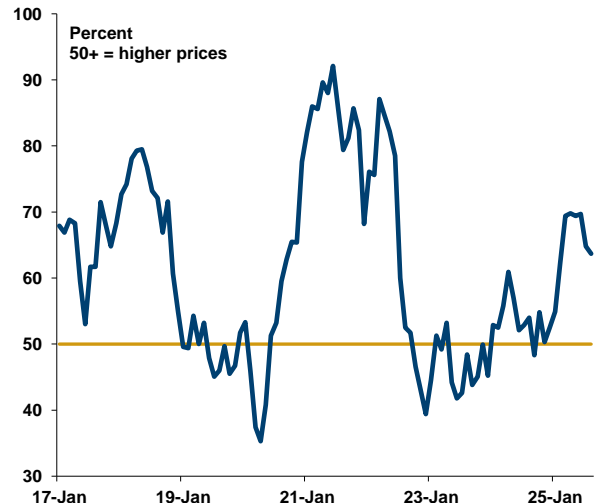
- Following the seemingly outsized 4.9 percentage point decline to 49.3 percent in the prior month, the supplier deliveries component rose 2.0 percentage point to 51.3 percent in August, indicating “slower” deliveries for the eighth time in the past nine months (chart, below left). As mentioned by Spence, the latest advance could be attributed to an increase in demand in the form of new orders contributing to a slowing in supply chain functioning.
- The prices component fell 1.1 percentage points to a still-elevated 63.7 percent in August, its 11th consecutive above-50 read (chart, below right). While this subindex has eased in three of the past four months and is off the recent high of 69.8 percent recorded last April, it is still well above levels that prevailed prior to the current tariff episode, with the recent acceleration credited to “increases in steel and aluminum prices that impact the entire value chain, as well as tariffs applied to many imported goods.”

ISM Manufacturing: Supplier Deliveries Index



Source: Institute for Supply Management via Haver Analytics

ISM Manufacturing: Prices Index



Source: Institute for Supply Management via Haver Analytics