



ISM Manufacturing Index: Up 1.8 in July

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This morning the Institute for Supply Management published its monthly *Manufacturing Report* for August. The latest headline Purchasing Managers Index (PMI) was 56.0, an increase of 1.8 from 54.2 the previous month. Today's headline number was above the *Investing.com* forecast of 54.5 percent.

Here is the key analysis from the report:

“The Inventories Index registered 44.4 percent, 2.6 percentage points lower than the July reading of 47 percent. The Prices Index registered 59.5 percent, up 6.3 percentage points compared to the July reading of 53.2 percent. The New Export Orders Index registered 53.3 percent, an increase of 2.9 percentage points compared to the July reading of 50.4 percent. The Imports Index registered 55.6 percent, a 2.5-percentage point increase from the July reading of 53.1 percent.

“After the coronavirus (COVID-19) brought manufacturing activity to historic lows, the sector continued its recovery in August, the first full month of operations after supply chains restarted and adjustments were made for employees to return to work. Survey Committee members reported that their companies and suppliers operated in reconfigured factories, with limited labor application due to safety restrictions. Panel sentiment was generally optimistic (1.4 positive comments for every cautious comment), though to a lesser degree compared to July. **Demand** expanded, with the (1) New Orders Index growing at very strong levels, supported by the New Export Orders Index expanding modestly; (2) Customers’ Inventories Index at its lowest figure since June 2010, a level considered a positive for future production, and (3) Backlog of Orders Index indicating growth for the second consecutive month.

Consumption (measured by the Production and Employment indexes) contributed positively (a combined 3.3-percentage point increase) to the PMI[®] calculation, with industries continuing to expand output compared to July. **Inputs** — expressed as supplier deliveries, inventories and imports — were flat during the survey period, due to supplier delivery issues returning and import levels expanding moderately. Inventory levels contracted again due to strong production output and supplier delivery difficulties. Inputs likely were the biggest impediment to production growth and contributed negatively (a combined 0.2-percentage point decrease) to the PMI[®] calculation. (The Supplier Deliveries and Inventories indexes directly factor into the PMI[®]; the Imports Index does not.) Prices continued to expand and at higher rates, reflecting a shift to seller pricing power — a positive for new-order growth.

“Demand and consumption continued to drive expansion growth, with inputs representing near- and moderate-term supply chain difficulties. Among the six biggest manufacturing industries, Food, Beverage & Tobacco Products remains the best-performing sector, with Chemical Products; Computer & Electronic Products; and Fabricated Metal Products growing strongly. Transportation Equipment also expanded, but at a low rate. Petroleum & Coal Products sunk into contraction territory. **See report**

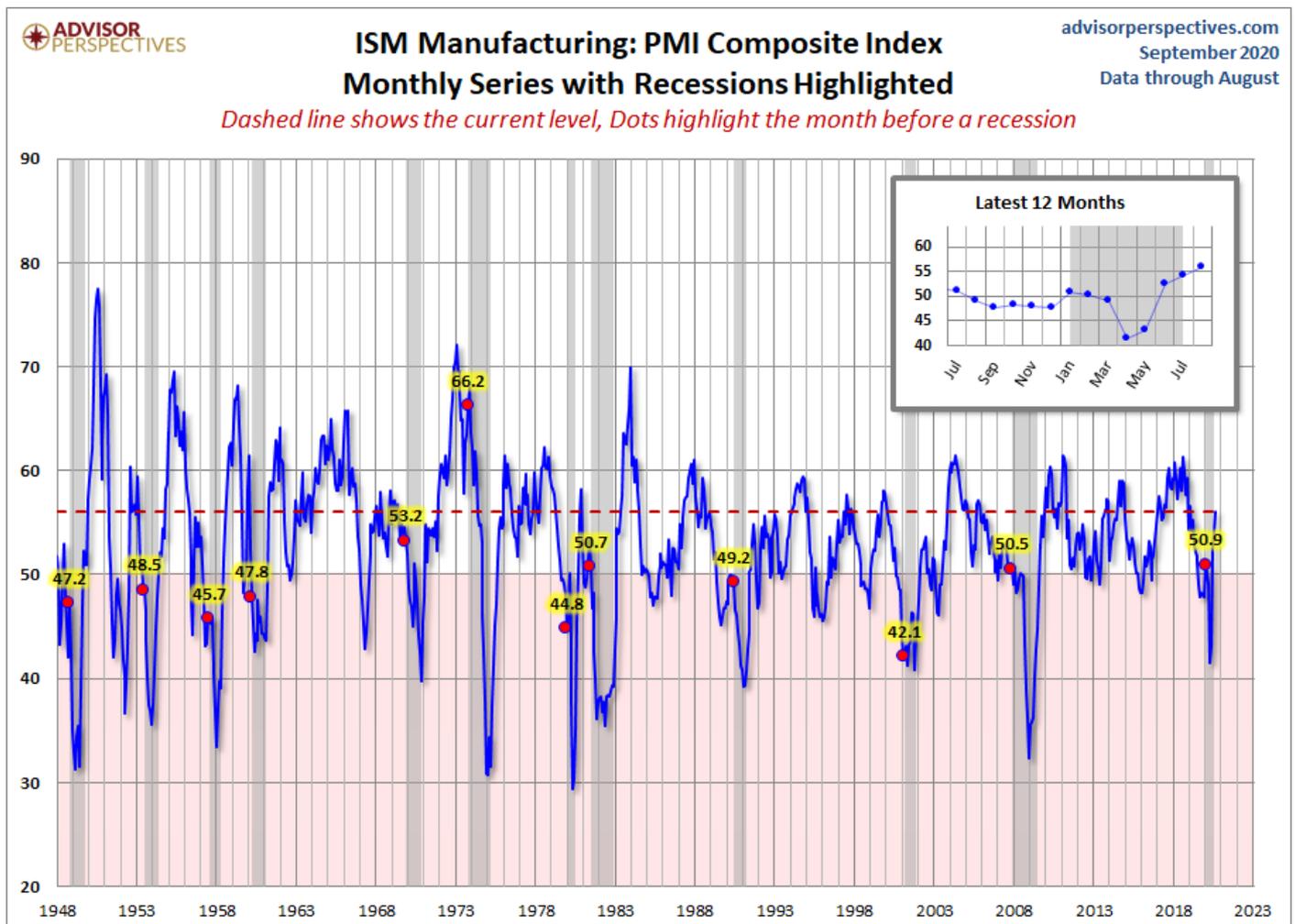
Here is the table of PMI components.

Manufacturing at a Glance
August 2020

Index	Series Index Aug	Series Index Jul	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI®	56.0	54.2	+1.8	Growing	Faster	3
New Orders	67.6	61.5	+6.1	Growing	Faster	3
Production	63.3	62.1	+1.2	Growing	Faster	3
Employment	46.4	44.3	+2.1	Contracting	Slower	13
Supplier Deliveries	58.2	55.8	+2.4	Slowing	Faster	10
Inventories	44.4	47.0	-2.6	Contracting	Faster	2
Customers' Inventories	38.1	41.6	-3.5	Too Low	Faster	47
Prices	59.5	53.2	+6.3	Increasing	Faster	3
Backlog of Orders	54.6	51.8	+2.8	Growing	Faster	2
New Export Orders	53.3	50.4	+2.9	Growing	Faster	2
Imports	55.6	53.1	+2.5	Growing	Faster	2
OVERALL ECONOMY				Growing	Faster	4
Manufacturing Sector				Growing	Faster	3

Manufacturing ISM® Report On Business® data is seasonally adjusted for the New Orders, Production, Employment and Inventories indexes.
*Number of months moving in current direction.

The chart below shows the Manufacturing Composite series, which stretches back to 1948. The eleven recessions during this time frame are indicated along with the index value the month before the recession starts.



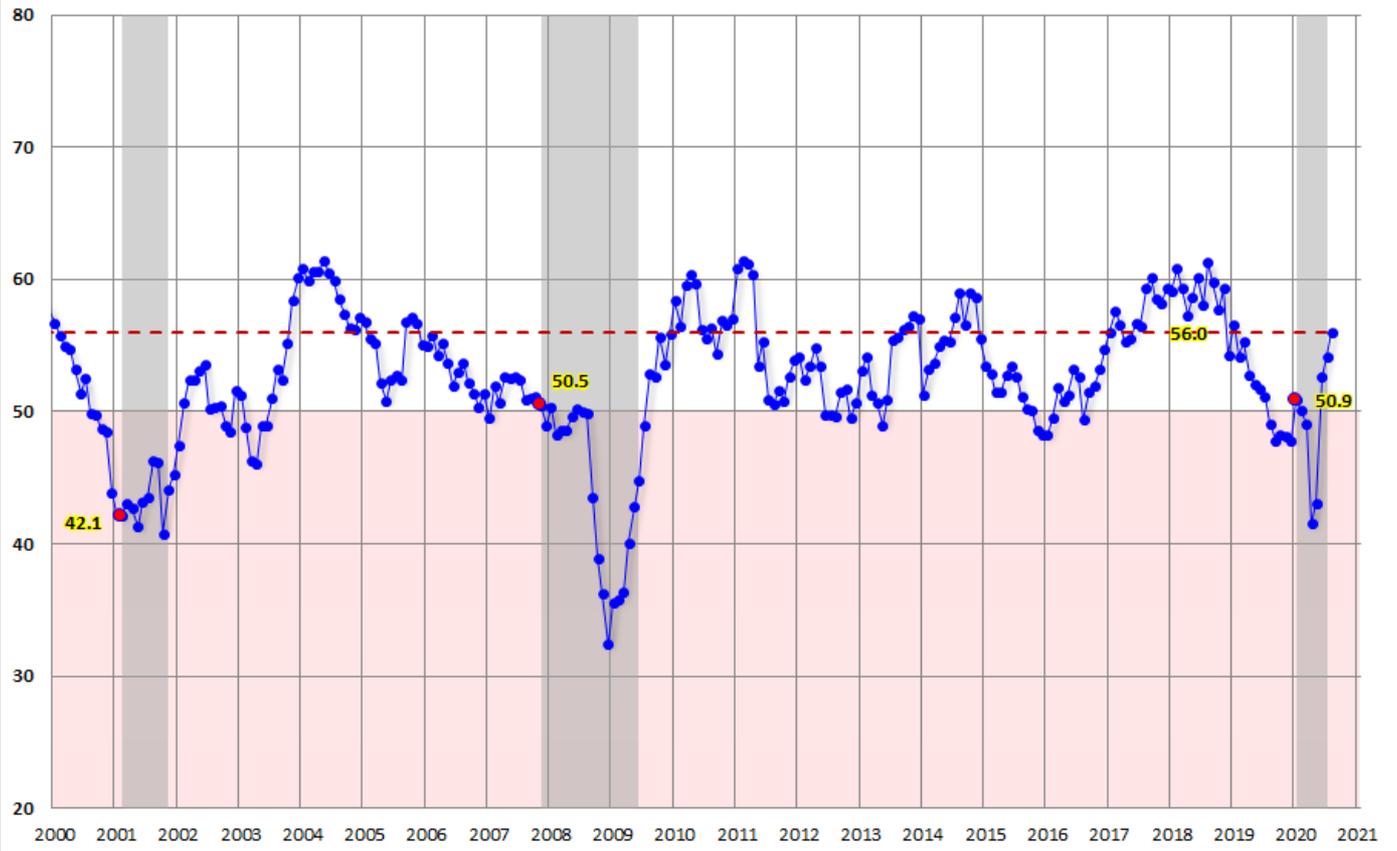
For a diffusion index, the latest reading is 56.0 and indicates expansion. What sort of correlation does that have with the months before the start of recessions? Check out the red dots in the chart above.

Here is a closer look at the series beginning at the turn of the century.

ISM Manufacturing: PMI Composite Index

Monthly Series with Recessions Highlighted

Dashed line shows the current level, Dots highlight the month before a recession



Note: This commentary used the FREDUSRECP series (Peak through the Period preceding the Trough) to highlight the recessions in the charts above. For example, the NBER dates the last cycle peak as December 2007, the trough as June 2009 and the duration as 18 months. The USRECP series thus flags December 2007 as the start of the recession and May 2009 as the last month of the recession, giving us the 18-month duration. The dot for the last recession in the charts above is thus for November 2007. The "Peak through the Period preceding the Trough" series is the one FRED uses in its monthly charts, as illustrated here.