

US ISM Points to Further Weakness in Manufacturing Sector in August

**ISM manufacturing headline index returns below 50 for the first time since February*

**The magnitude of the monthly decline (-3.2) is the largest since January 2014*

**Nine of the ten ISM manufacturing subindexes declined pointing to broadbased weakness*

**US consumer activity will have to continue to drive economic activity in the near-term*

The Institute for Supply Management (ISM) US manufacturing headline index declined by 3.2 points to 49.4 in August, a seven-month low, and returned below 50 for the first time since February indicating that manufacturing activity contracted on the month (see Chart 1).

The magnitude of the monthly decline (-3.2) is the largest since January 2014 - when an unusually cold winter had stymied economic activity - and suggests that the improvement in sentiment in prior months may have been a false signal and businesses continue to be affected by various factors such as the strong dollar, low oil prices and slower global economic growth. Of course, **months' worth of** additional data is needed to confirm a renewal of the lower trend in activity, but most regional manufacturing surveys also pointed to a contraction in activity on the month.

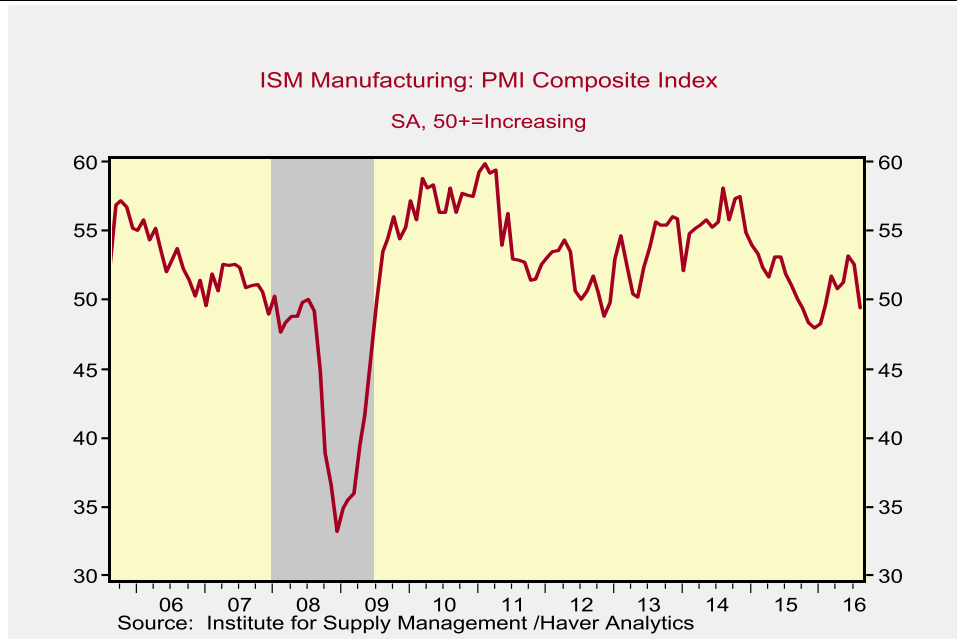
Nonresidential fixed investment has contracted for three consecutive quarters - a rarity in an economic expansion - and based on this survey data, any rebound in activity **will be gradual at best. There were some signs of a turnaround in the "hard data" for July with solid improvements in industrial production and orders for manufactured durable goods**, but this more recent survey manufacturing data (which cover the month of August) place some doubt on how sustainable the improvement in the hard data will be.

The details of the survey were broadly weak with nine of ten subindexes declining. Notably, measures of current activity, such as new orders and production both fell below 50 (into contraction) and the employment subindex declined further indicating that manufacturing employment as reported in the August BLS employment report tomorrow will probably be weak. On trade, the export orders measure was unchanged (the only subindex in the report which did not decline), while import orders fell by 5pts to 47.0, an eight month low, providing another indication of softer domestic demand (see Chart 3).

Going forward, the US consumer will have to continue to support economic growth as firms continue to adjust doing business in a more challenging environment. Moreover, uncertainty surrounding the outcome of the impending presidential election may way further on confidence.

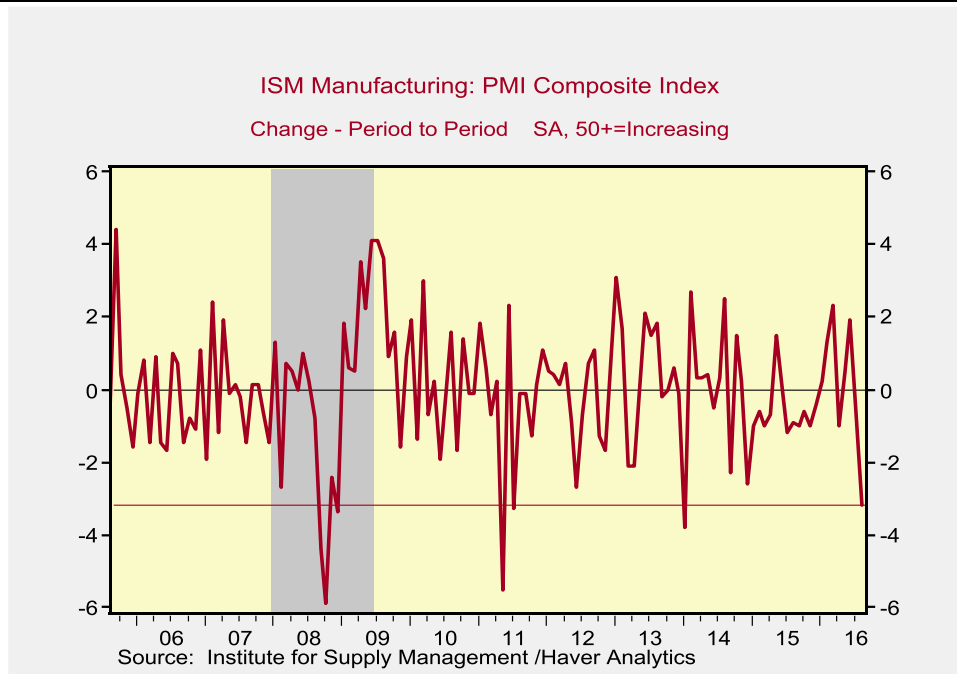
01 September 2016

Chart 1: ISM Manufacturing: PMI Composite Index



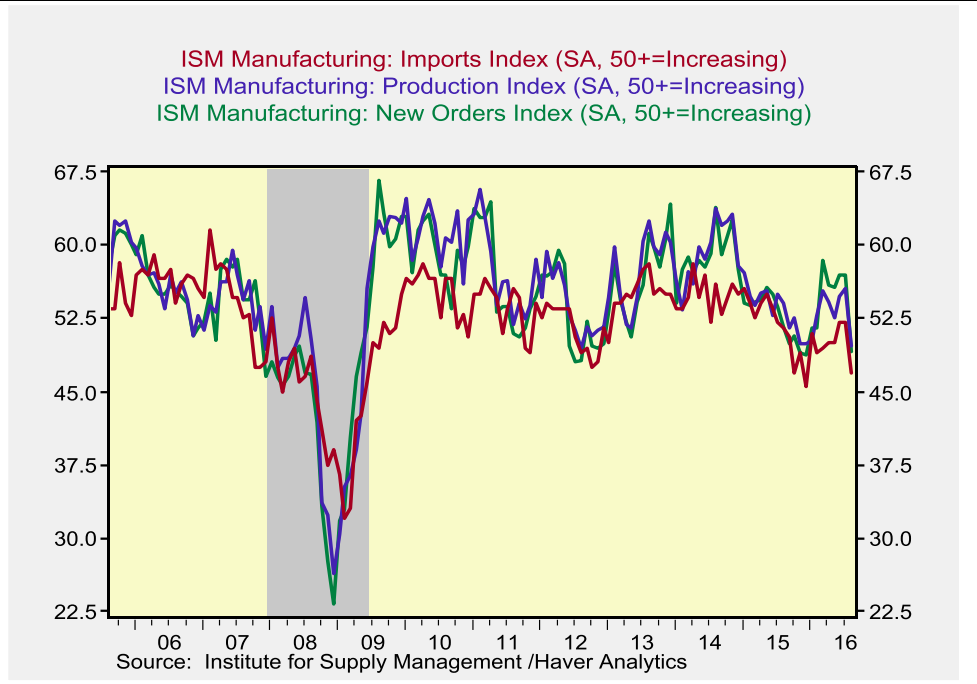
Source: Monthly data. Source: Institute for Supply Management and Haver Analytics

Chart 2: Monthly Change in ISM Manufacturing PMI Composite Index



Source: Monthly data. Source: Institute for Supply Management and Haver Analytics

Chart 3: ISM measures of Demand and Current activity



Source: Monthly data. Source: Institute for Supply Management and Haver Analytics

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