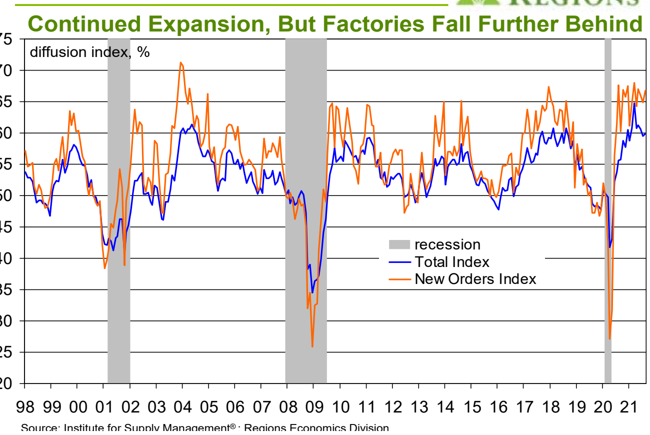
ECONOMIC UPDATE
REGIONS
September 1, 2021

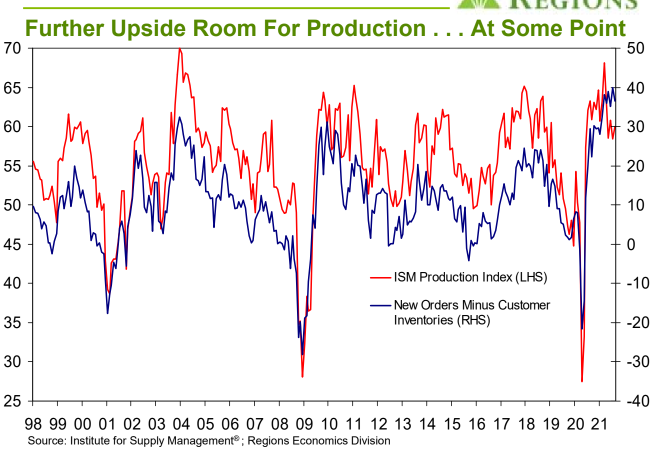
August ISM Manufacturing Index: Continued Expansion, But Factories Fall Further Behind

- The ISM Manufacturing Index rose to 59.9 percent in August from 59.5 percent in July
- The new orders index rose to 66.7 percent, the employment index fell to 49.0 percent, and the production index rose to 60.0 percent

The ISM Manufacturing Index rose to 59.9 percent in August, contrary to the modest decline we and the consensus expected. August marks the fifteenth consecutive month in which the headline index was above the 50.0 percent break between contraction and expansion. The indexes measuring new orders, production, and inventories increased in August, while the indexes measuring prices paid and supplier delivery times fell, and while this could signal some easing in the supply, delivery, and price pressures that have plagued manufacturers over the past several months, we're not so sure. Growth was less broad based across industry groups than has been the case, and at the same time backlogs of unfilled orders expanded even further in August. Moreover, global supply chain and logistics pressures intensified in August, so it could be that the September ISM data will reflect the effects on U.S. manufacturers. For now, however, the story remains the same for domestic producers, which is that demand continues to grow more rapidly than firms are able to keep pace with.

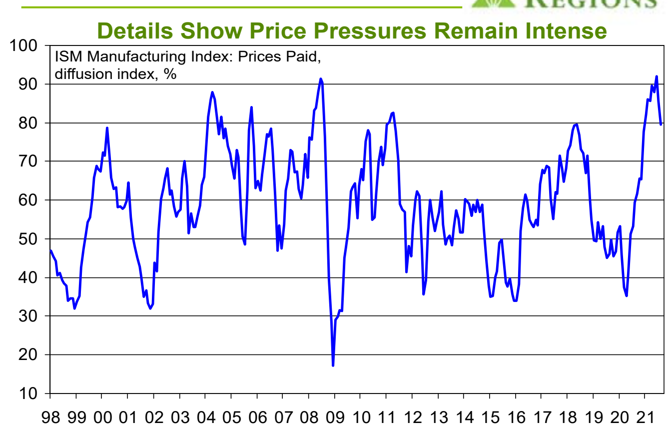


Of the 18 industry groups included in the ISM's survey, 15 reported expansion in August, the smallest number since October 2020, with two industry groups – textile mills and nonmetallic mineral products – reporting contraction. To be sure, the expansion in the factory sector remains broad based, but with fewer industries reporting growth in new orders, production, and employment in August, this is clearly something to watch going forward. The tone of comments from survey respondents was little changed in the August survey. Respondents from a number of industry groups report that demand remains strong, but shortages of materials, longer delivery times, and labor supply constraints are limiting their ability to keep pace with demand, hence growing backlogs of unfilled orders. As for the prospect that supply-side constraints may be easing, one respondent from the machinery industry group referred to logistics as "an ongoing challenge that has no end in sight."



The new orders index rose to 66.7 percent in August from 64.9 percent in July, with 14 of the 18 industry groups reporting growth in new orders. We had thought that the combination of growing backlogs of unfilled orders and uncertain delivery times may have taken some of the steam out of growth in new orders, but that has not been the case. The production index rose to 60.0 percent in August from 58.4 percent in July, but at the same time only 13 of the 18 industry groups reported higher output in August compared to the 16 that reported growth in July. After a month above water, the employment index dipped down below 50.0 percent in August, settling at 49.0 percent. While 7 of the 18 industry groups reported employment growth in August, the same number reported declines in employment.

While the index of supplier delivery times fell to 69.5 percent in August, this is still consistent with slower delivery times, with 16 industry groups reporting slower delivery times. ISM notes suppliers remain hamstrung by labor supply constraints, longer raw materials lead times, and inconsistent shipping availability. This is adding another layer to the supply chain and logistics bottlenecks plaguing the industrial sector. Reflecting these supply-side constraints, the ISM's index of order backlogs rose to 68.2 percent in August, with 15 industry groups reporting larger backlogs and none reporting smaller backlogs. If there is a silver lining here, it is that manufacturers will remain busy even should the flow of new orders begin to slow to a meaningful degree. That, however, seems a distant concern given that August marks the 59th consecutive month in which customer inventories were deemed to be too low.



While the prices paid index slipped to 79.4 percent in August from 85.7 percent in July, this nonetheless marks the 15th consecutive month of rising input pries. In other words, even if input prices are rising at a slower pace, they are still rising, and each month's increase builds on those that have come before. That is, more broadly, a useful point to keep in mind as you hear some downplay inflation as transitory.

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