ECONOMIC UPDATE

REGIONS

September 2, 2025

August ISM Manufacturing Index: Manufacturing Sector Stuck In A Rut

- The ISM Manufacturing Index rose to 48.7 percent in August from 48.0 percent in July
- The new orders index rose to 51.4 percent, the production index fell to 47.8 percent, and the employment index rose to 43.8 percent

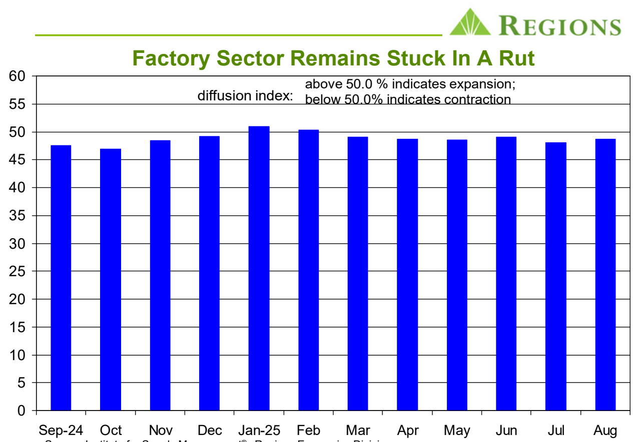
The ISM Manufacturing Index rose to 48.7 percent in August, below both the consensus forecast (49.0 percent) and our forecast (50.0 percent), making it six straight months in which the headline index has been on the wrong side of the 50.0 percent break between contraction and expansion. The details, particularly those pertaining to new orders, are a bit more constructive than the headline index suggests, and the headline index implying further contraction in the factory sector in August is at odds with other indicators suggesting some improvement in factory sector conditions in August. Either way, the ISM survey also suggests that, despite the headline index indicating contraction, upward pressures on input prices remain intense and broadly based. Given the narrow range within which the ISM's headline index has stayed over the past several months, rather than thinking of it as a steady contraction we see it more as activity in the factory sector having stabilized around a low level. That there has been no change in the main underlying themes of the ISM's monthly surveys, i.e., tariffs and uncertainty, makes it seem unlikely that the headline index will break out of this narrow range any time soon.

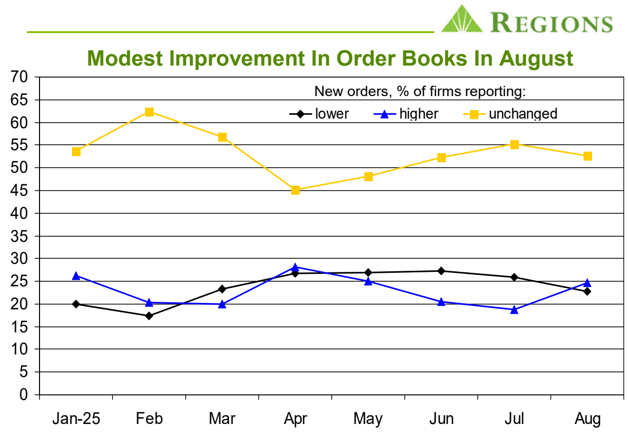
Eight of the eighteen broad industry groups included in the ISM's survey reported growth in August, compared to four in the July survey. Comments from survey respondents relayed by ISM are again dominated by tariffs and the uncertainty around pricing resulting from what seems to be a constantly shifting tariff regime. One respondent from the computer and electronics products industry group stated that "tariffs continue to wreak havoc on planning/scheduling activities." A respondent from the transportation equipment industry group noted that the trucking industry continues to contract as customers continue to "hold off on buying new equipment," while another respondent from the electrical equipment and appliances industry group noted that price increases were offsetting higher tariffs, but their firm was nonetheless letting go of highly skilled workers.

On the whole, the comments relayed by ISM suggest dim prospects for improvement in overall conditions but, to our earlier point, rather than further deterioration in August, the details of the survey suggest activity having stabilized around a low level. For instance, the production index slipped to 47.8 percent in August from 51.4 percent in July, but the firm level details show 62.3 percent of firms reported no change in production in August compared to the 60.7 percent who did so in the July survey. The drop in the diffusion index reflects a net shift toward lower production amongst the remainder of respondents. We can make the same point about the employment index, as 68.2 percent of firms reported no change in employment levels in August, up from 62.4 percent in July, but on the margin the net change in payrolls was to the downside. This isn't to dismiss the reads on the diffusion indexes, but rather to reiterate a point we've made in the past in this context, which is that in most months, a handy majority of firms report no changes in output, employment, or orders, with the marginal changes driving the diffusion indexes.

For new orders, however, both the diffusion index and the firm level details showed some improvement in August. At 51.4 percent, the new orders index was above the neutral 50.0 percent mark for the first time since January. At the same time, there was meaningful improvement in the percentage of firms reporting higher orders and a more moderate decline in the percentage of firms reporting lower orders. Other measures of factory orders showed a hefty improvement in core capital goods orders in July, and that could be translating into the ISM's survey. That said, one month of any data series doesn't tell you much, and it could be that firms are moving to stem the runoff in inventories seen over recent months, which is different than sustained organic growth. Either way, the new orders index is one bright spot in the ISM's August survey. At the same time, supplier delivery times slowed in August, which is an indication of a higher level of activity.

While the prices paid index eased modestly in August, slipping to 63.7 percent from 64.8 percent in July, upward pressures on input prices remain broadly based. ISM notes that increases in steel and aluminum prices are triggering chain reactions throughout supply chains given the broad range of goods that rely on these key inputs, while higher tariffs are also playing a role. An often overlooked point is that roughly one-half of all goods imported into the U.S. are either raw materials or intermediate goods used in the production of final goods. With tariffs clearly impacting input prices, we think it far too soon to dismiss the possibility of tariffs ultimately being reflected in higher goods prices.





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