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UNITED STATES

The ISM manufacturing index slips below 50!

HIGHLIGHTS

- The ISM manufacturing index declined in November, from 50.1 to 48.6.
- Five of the ten sub-indexes contracted. The main declines stem from new orders (-4.0 points), current production (-3.7 points) and inventories (-3.5 points). The component tied to prices paid also fell by 3.5 points, to 35.5.
- Among the sub-indexes that recorded gains, employment (+3.7 points) stands out.

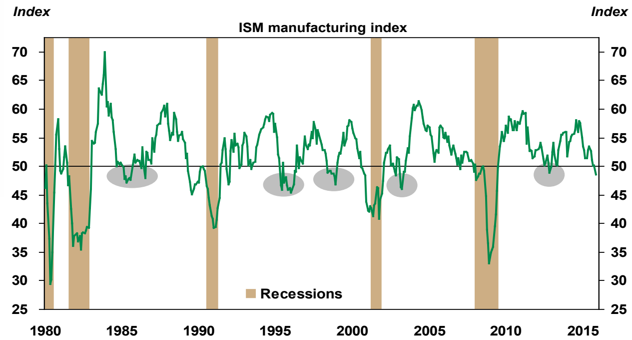
COMMENTS

The ISM manufacturing index was already on a downtrend for the past few months. A year ago, the ISM manufacturing index was at 57.6. Except for a modest uptick last spring, it declined almost consistently all year long to settle at 50.1 in October, but it was still above 50, the cut-off point between expanding and contracting manufacturing activity in the United States. This threshold has now been crossed—a first since November 2012 (48.9). At 48.6, the ISM manufacturing index is at its lowest level since June 2009, at the tail end of the recession. Keep in mind that the trough reached during the 2008–2009 crisis was 33.1, in December 2008.

The weakness of the ISM manufacturing index clearly reflects current problems in the manufacturing sector, which is particularly affected by several factors, including the strong U.S. dollar, weak demand from emerging countries and the drop in investments in the oil sector.

Fortunately, the U.S. economy extends beyond the manufacturing sector. The ISM non-manufacturing sector remains at very encouraging levels (59.1 in October), which continues to bode well for other industries, especially on the services side. Needless to say, all eyes will be on the release this Thursday of the ISM non-manufacturing index for November.

The ISM can slip below 50 without signifying economic contraction



Sources: Institute for Supply Management, National Bureau of Economic Research and Desjardins, Economic Studies

The better performance of the "employment" component in the ISM manufacturing index, which crossed the 50 threshold—from 47.6 to 51.3—is also encouraging. Keep in mind that no net hires have been recorded in the manufacturing sector since July.

Implications: The decline in the ISM manufacturing index is obviously bad news that casts doubt on the strength of the U.S. economy, which should nevertheless continue to get solid support from the services sector. Today's news could however worry some of the decision-makers at the Federal Reserve (Fed) in the run-up to the December 16 meeting. The Fed has never raised rates with the ISM below the 50 mark, but Janet Yellen and her colleagues appeared ready to begin monetary firming with the ISM at 50.1. Will the reading of 48.6 be a real game-changer? Statements by the Fed's leaders in the next few days and the job data to be published on Friday could provide us with answers.

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NOTE TO READERS: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.