

## ECONOMIC NEWS

# United States: The ISM Manufacturing Index Falls below the 50 Mark

### HIGHLIGHTS

- ▶ The ISM manufacturing index fell from 51.2 to 49.1 in August. This is the first time since August 2016 that it has dropped below the 50 mark.
- ▶ Seven of the ten sub-indexes contracted. The main components that declined the most were export orders (-4.8 points), employment (-4.3 points) and new orders (-3.6 points). The index relating to current production fell 1.3 points.
- ▶ The only indexes that rose were those relating to order backlogs (+3.2 points), prices paid (+0.9 points) and inventories (+0.4 points).

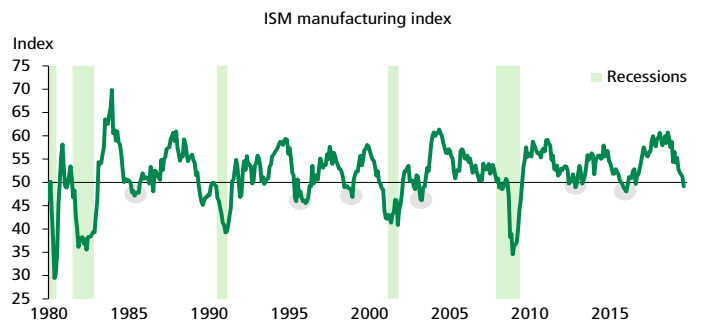
### COMMENTS

For the first time in three years, the ISM manufacturing index dropped below 50, which is the difference between growth and a contraction in manufacturing in the United States. This new low is this indicator's fifth consecutive monthly contraction. We have to go back to 2015 to see a series of declines just as long. The index's total decline is far from negligible. Just one year ago, it was over 60.

Not only did the ISM fall, it fell below 50, additional signs that things are not quite right with the U.S. economy. However, we shouldn't rush to the conclusion that the economy is heading for a complete downturn. A drop below 50 is not always followed by a recession. In fact, there have been two drops below 50 during the current growth cycle (2012–2013 and 2015–2016). Proof of a recession requires that the index fall much lower (the Institute for Supply Management refers to a level of 42.9) and, in particular, that the bad news spreads beyond the manufacturing sector. It's important to remember that this sector only represents about 11% of U.S. GDP and 9% of nonfarm payroll employment.

### GRAPH

**The ISM manufacturing index can drop below the 50 mark without signaling that the economy is contracting**



Sources: Institute for Supply Management and Desjardins, Economic Studies

Still, the ISM's decline is bad news for the U.S. economy, as it signals that the United States is suffering from both a domestic economy and a global economy weakened by the trade war. Moreover, the 43.3 level recorded by the component relating to exports has been the lowest since April 2009, i.e., in the midst of the Great Recession. The decline in the component relating to new orders suggests that business investment growth is likely to remain slow. The employment component's drop below the 50 mark signals that the hiring upturn in manufacturing in June and July could be fleeting.

### IMPLICATIONS

The ISM index's decline below the 50 mark does not augur well for the U.S. economy, yet it is far from being enough to think that a recession is imminent. However, it provides all the latitude the Federal Reserve needs. It is expected to lower its key interest rates again during its meeting on September 18.

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