ECONOMIC NEWS

United States: The ISM Manufacturing Index Decreases Further

HIGHLIGHTS

- The ISM manufacturing index fell from 49.1 to 47.8 in September. This sixth monthly consecutive drop brought it to its lowest level since June 2009.
- Six of its ten sub-indices declined. The declines stem from inventories (-3.0 points), export orders (-2.3 points) and current production (-2.2 points). The employment sub-index fell 1.1 points.
- The sub-indices that rose were imports (+2.1 points), prices paid (+3.7 points) and new orders (+0.1 points).

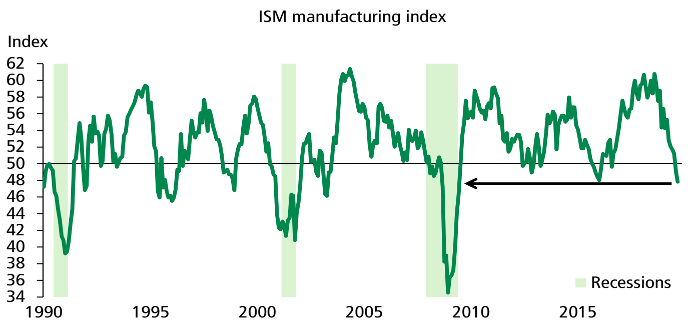
COMMENTS

The ISM index's decline below the 50 mark in August had already caused some commotion. The fact that it is getting further bogged down is adding to this unease. The level reached is below the most pessimistic forecast that Bloomberg found among 69 forecasters.

The ISM manufacturing index previously fell to this level without the overall economy falling into recession. Examples include the soft patch of 1995, the Asian crisis of 1998 and the beginning of the Iraq war in 2003. This time, the trade war is behind manufacturers' current problems. The export component fell to its lowest level since the 2008–2009 crisis and many of the comments surveyed by the Institute for Supply Management point to the negative effects of rate hikes.

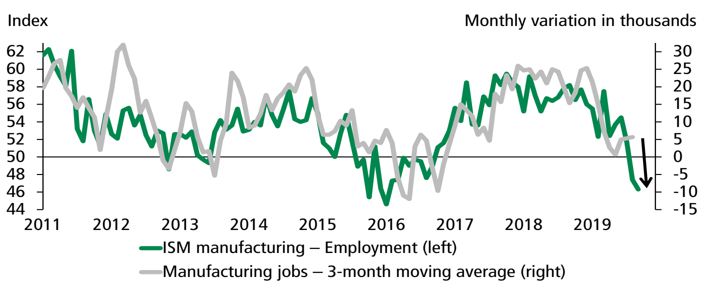
The fall in the employment component is more akin to 2016 and suggests there could soon be net layoffs in manufacturing. The modest gain in the new orders component cannot hide its extremely low rate of 47.3, which suggests that business investment may struggle.

GRAPH 1
The lowest ISM manufacturing index since June 2009



Sources: Institute for Supply Management and Desjardins, Economic Studies

GRAPH 2
The ISM index points to a drop in manufacturing employment



Sources: Institute for Supply Management, Bureau of Labor Statistics and Desjardins, Economic Studies

IMPLICATIONS

The soft ISM manufacturing index gives the Federal Reserve one more reason to pursue its mid-cycle adjustment. More results like this could even lead to a rate cut at the end of October.

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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.