

ECONOMIC NEWS

United States: ISM Manufacturing Index Drops... but Less than Anticipated

HIGHLIGHTS

- ▶ The ISM manufacturing index fell in April, from 49.1 in March to 41.5, its lowest point since April 2009. According to the Institute for Supply Management, it's now at a level that points to a recession in the United States.
- ▶ Six of its ten sub-indices declined. The main components that declined the most were current production (-20.2 points), employment (-16.3 points) and new orders (-15.1 points).
- ▶ The indices that increased were supplier deliveries (+11.0 points), customer inventories (+5.4 points), manufacturer inventories (+2.8 points) and imports (+0.6 points).

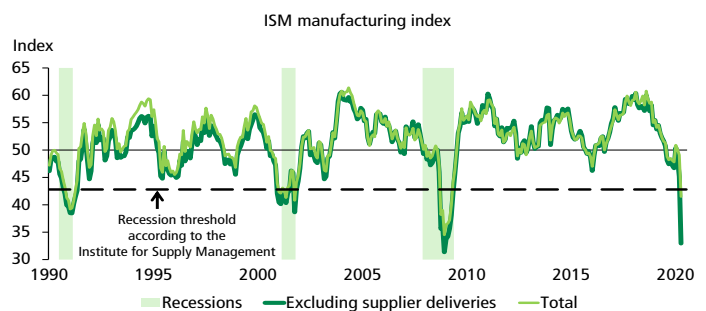
COMMENTS

The drop in the ISM manufacturing index is not a major surprise. Most of the regional manufacturing indices had seen major declines in the past two months. In March, the ISM manufacturing index was able to withstand some of the downward pressure, but it failed to hang on in April. It is now below the 42.8 mark, which is considered the threshold at which the economy as a whole (and not just manufacturing) is in recession.

However, April's pullback turned out to be smaller than initially feared. The consensus was expecting an ISM index to fall below the 40 mark, which is what other manufacturing indicators also seemed to suggest. It's worth noting that the ISM index is supported in part by one of its components, namely supplier deliveries, which represents one-fifth of the total index calculation. A hike in this sub-index normally indicates increased pressure on suppliers to perform in response to solid economic growth. Under the current circumstances, however, supplier deliveries are on the rise, not because production can't keep up with the order backlog, but rather because many companies had to close or reduce their output to follow the public health rules imposed in response to the COVID-19 pandemic. Without

GRAPH

The ISM manufacturing index suggests that the U.S. economy is in recession



Sources: Institute for Supply Management and Desjardins, Economic Studies

the hike in the component relating to supplier deliveries (which reached its highest level in April since April 1974), the ISM manufacturing index would be no higher than 33.0.

In addition, it's important to note the extremely low level of the index relating to new orders. With the help of easing trade tensions, it was around 52.0 in January, but fell to 27.1 in April, the lowest level since December 2008. This suggests that corporate investment will continue to struggle in the second quarter after an annualized decrease of 15.2% in equipment investment in the first quarter.

IMPLICATIONS

The drop in the ISM manufacturing index is significant, even if the contraction is less than anticipated. It shows that the economic difficulties relating to COVID-19 are still there at the start of the second quarter and that the U.S. economy is showing all the signs of an economy that is truly in recession.

Francis Généreux, Senior Economist

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist
Hélène Bégin, Senior Economist • Benoit P. Durocher, Senior Economist • Francis Généreux, Senior Economist

Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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