# Datanote: US ISM Manufacturing Survey, July

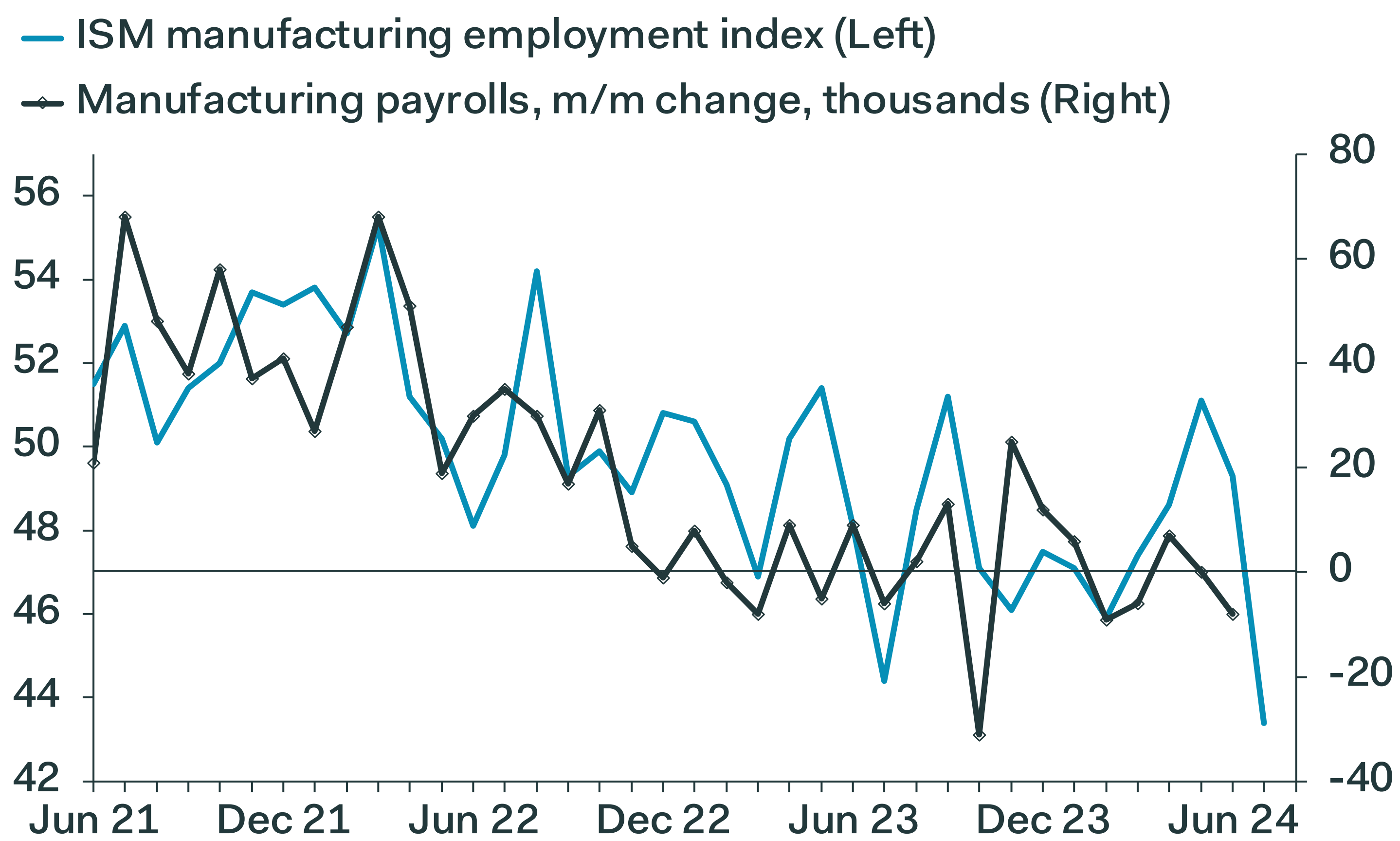
**In one line: The manufacturing malaise continues.**

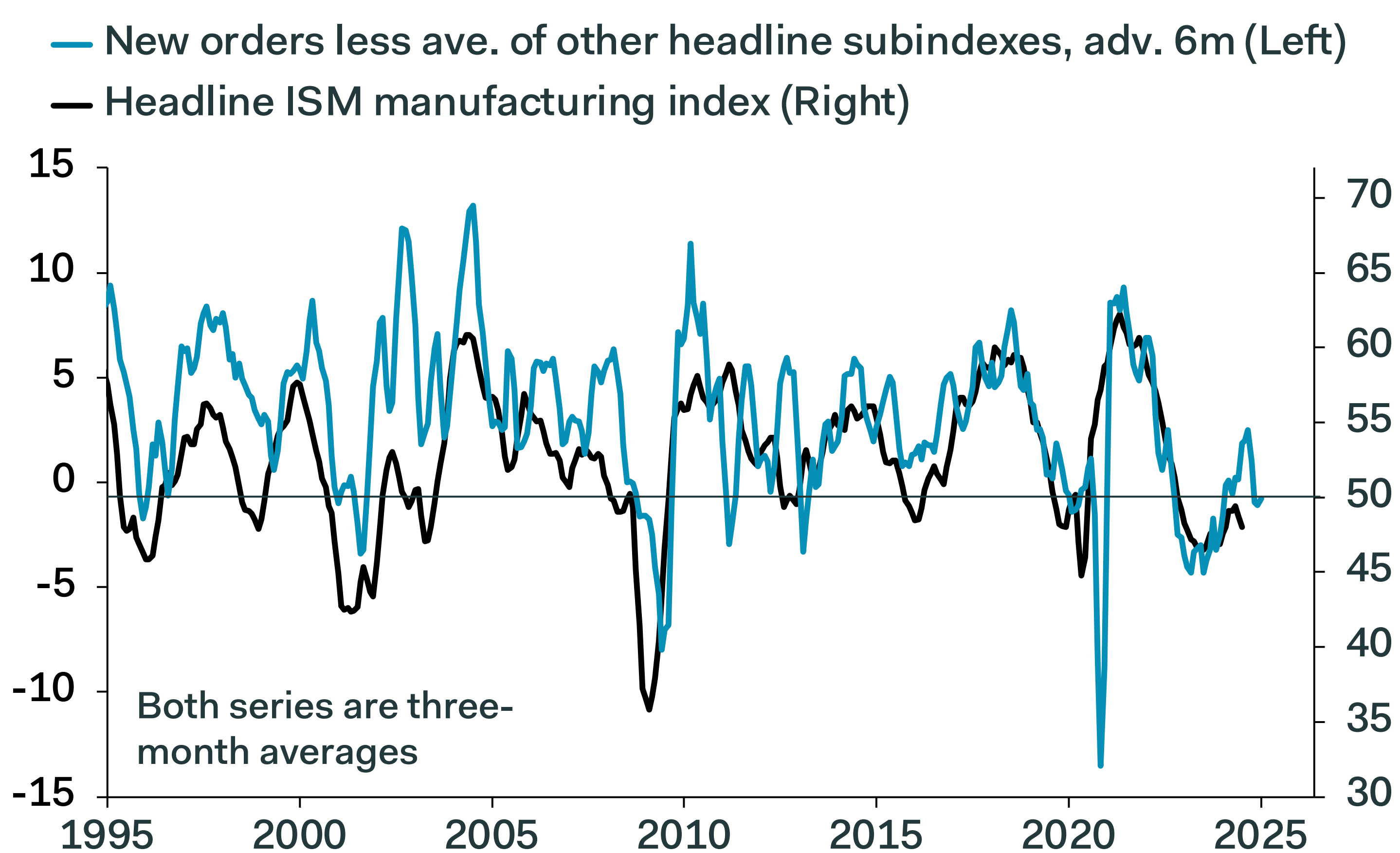
- The ISM manufacturing index dropped to 46.8 in July, from 48.5, below the consensus, 48.8.

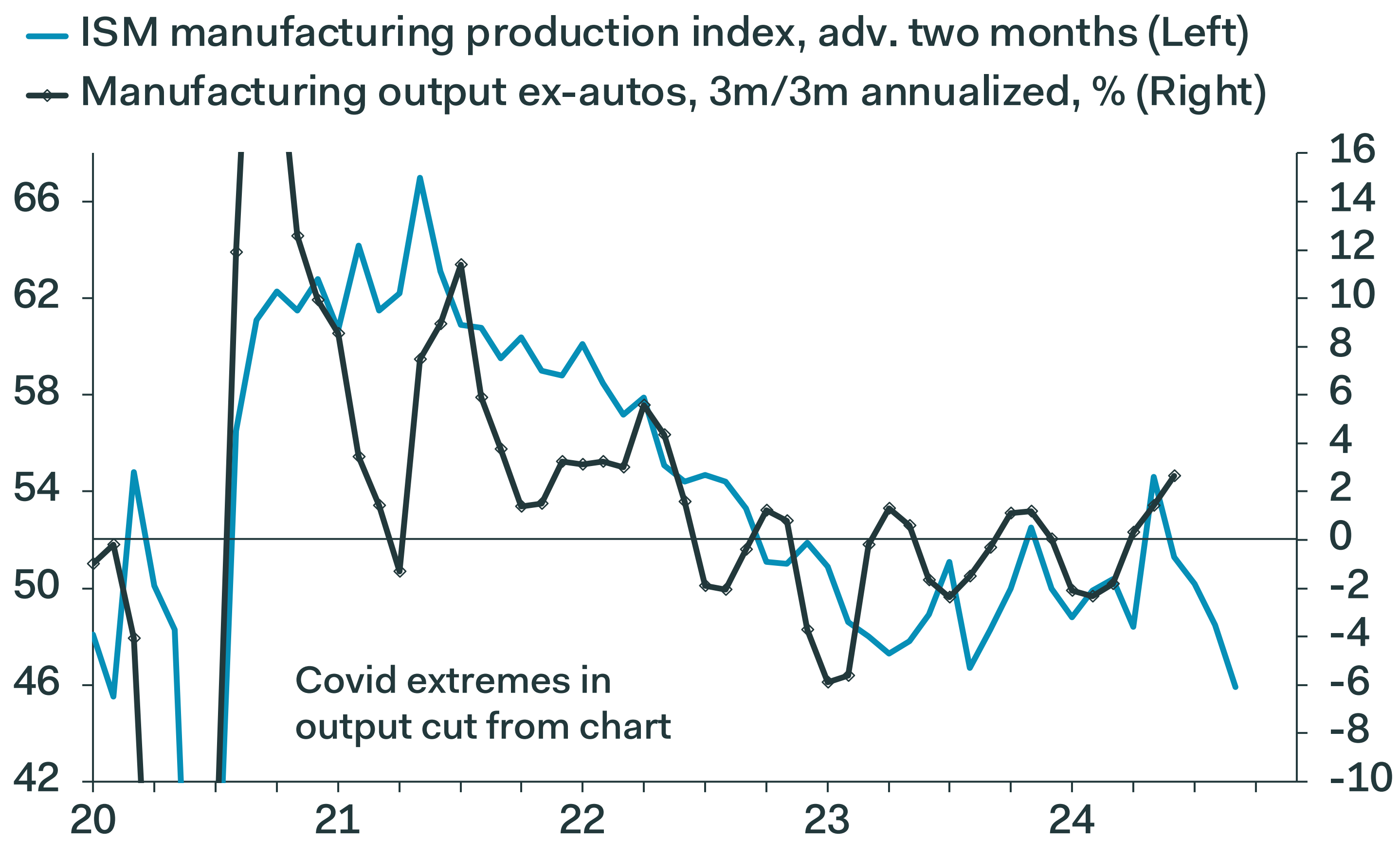
This is a very downbeat report underlining that the manufacturing sector continues to struggle. The headline index slid to an eight-month low and now has been below the 50 mark that theoretically separates expansion from contraction for 20 of the past 21 months. A sharp fall in the employment component to 43.4—its lowest level since June 2020—from 49.3 explains most of the drop in the headline. The employment subindex is a far-from-perfect guide to growth in manufacturing payrolls, but its current level points to a drop of around 30K last month. The new orders component also dropped back, to 47.4 from 49.3, suggesting that the near-term outlook remains very challenging. Meanwhile, the production subindex fell to another four-year low, consistent with a significant drop in manufacturing output, which had shown signs of turning a corner. The decline in the headline index would have been even sharper were it not for a 2.8-point jump in the supplier delivery times component, to 52.6 from 49.8, the only component of the five included in the headline which improved. But given the broad-based weakness elsewhere in the report, the pick-up in delivery times seems much more likely to reflect supply- rather than demand-side factors.

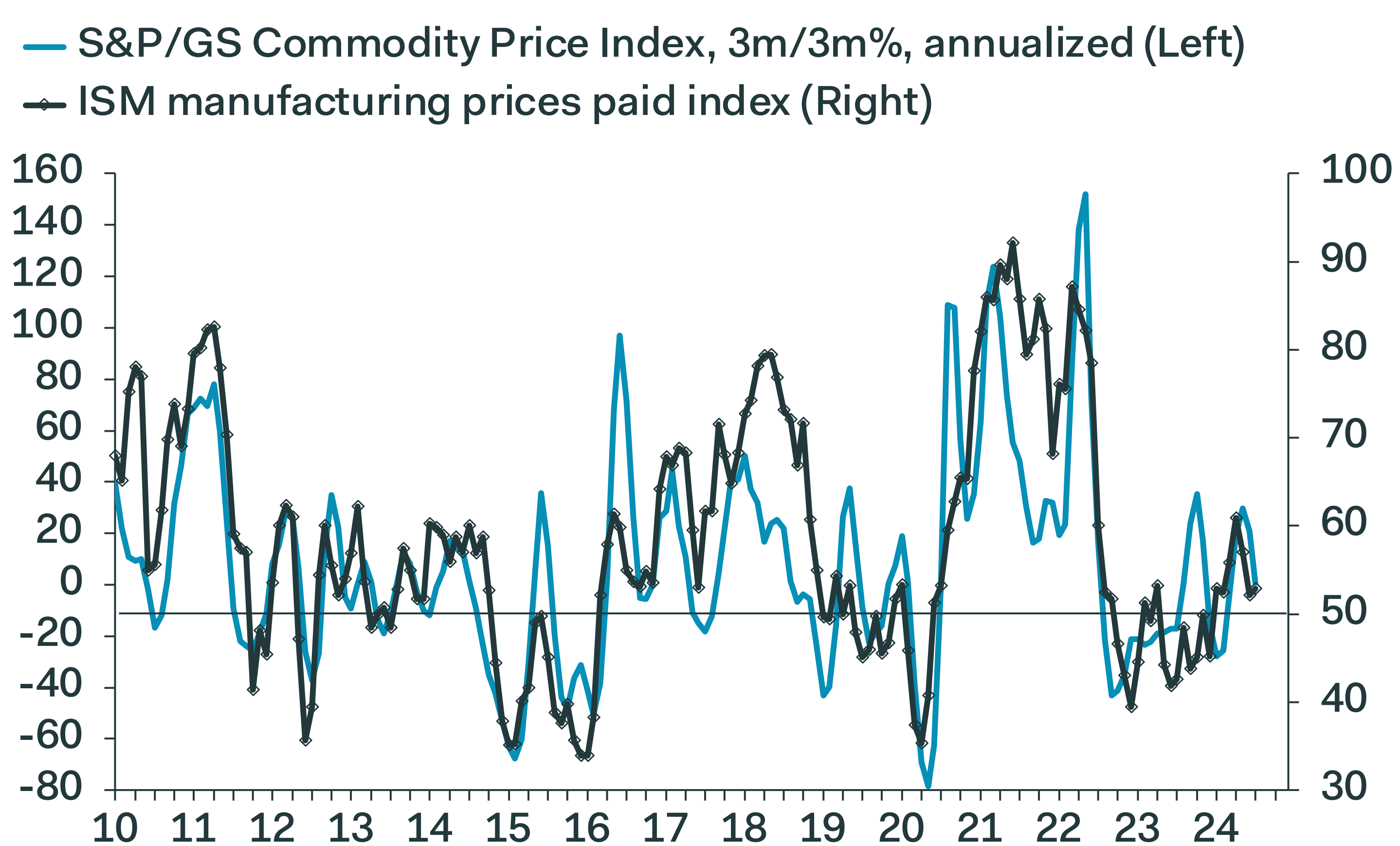
The manufacturing sector is too small to shift the dial for the overall economy or payrolls by very much, but its current struggles are clearly a minor headwind. A sustained recovery in the sector probably requires either much stronger external demand or a meaningful upturn in domestic capital spending. But growth in most of the rest of the world is still relatively weak, and domestic investment seems unlikely to provide much support while long-term interest rates remain so high.

As usual, we think that the survey's prices paid subindex should mostly be ignored, since it swings in line with commodity prices in the short term. We've found the average of the order backlogs and delivery times components to be a much better leading indicator of core goods inflation during the pandemic, and the small rise in this average in July still leaves it consistent with flat-to-falling core goods prices over the next couple of quarters. We've been on the lookout recently for signs that the surge in shipping rates since the start of this year is putting upward pressure on manufacturers' costs, but there is scant evidence of this in the numbers so far, and the issue received no mention in the accompanying press release.


ISM manufacturing employment index (Left)
Manufacturing payrolls, m/m change, thousands (Right)
56
54
52
50
48
46
44
42
80
60
40
20
0
-20
-40
Jun 21
Dec 21
Jun 22
Dec 22
Jun 23
Dec 23
Jun 24


New orders less ave. of other headline subindexes, adv. 6m (Left)
Headline ISM manufacturing index (Right)
15
10
5
0
-5
-10
-15
70
65
60
55
50
45
40
35
30
Both series are three-month averages
1995
2000
2005
2010
2015
2020
2025


ISM manufacturing production index, adv. two months (Left)
Manufacturing output ex-autos, 3m/3m annualized, % (Right)
66
62
58
54
50
46
42
16
14
12
10
8
6
4
2
0
-2
-4
-6
-8
-10
Covid extremes in output cut from chart
20
21
22
23
24


S&P/GS Commodity Price Index, 3m/3m%, annualized (Left)
ISM manufacturing prices paid index (Right)
160
140
120
100
80
60
40
20
0
-20
-40
-60
-80
100
90
80
70
60
50
40
30
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24


ISM manufacturing, ave. of order backlog and delivery times (Left)
CPI core goods ex-autos, 3m/3m%, annualized (Right)
China-led boom in global commodity prices
Trade war
Order backlog/delivery times advanced by eight months
80
75
70
65
60
55
50
45
40
35
10
8
6
4
2
0
-2
-4
-6
06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25