Economic Indicator — September 1, 2021

ISM: Improvement in All Categories but One

Summary

The defining challenges of the COVID era improved in August according to the latest ISM survey. Wait times are shortening, inventories are being rebuilt and orders remain strong. One clear exception: businesses cannot find the people to do the work in the nation's factories. In recognition of this difficulty, we have dialed back our forecast August payrolls number to an increase of 750K.

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Demand Still Strong and Depleted Stockpiles are Being Rebuilt

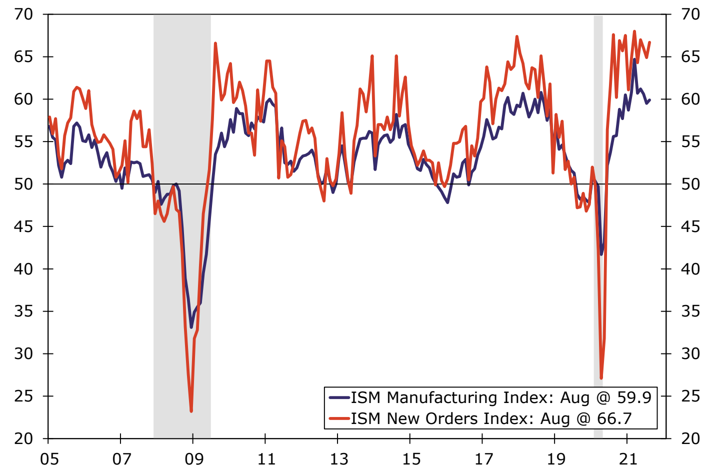
The takeaway from today's ISM report for the month of August is that the manufacturing sector is finding ways to thrive even in a very difficult environment. Apart from a notable miss in the employment index, there was incremental improvement in many of the categories that have defined the struggles of the COVID era.

The overall index rose slightly to 59.9, despite expectations for decline in the bellwether of industrial activity. Critically, new orders notched a gain of 1.8 points to reach 66.7, indicating the demand backdrop remains quite strong.

We were somewhat surprised to see supplier delivery times come down amid the ongoing supply chain problems and shortages, but the reading here of 69.5 is still quite elevated by historical standards.

The top two biggest upward moves of the various components were both indicative of a rebuilding of depleted stockpiles. Both inventories and customer inventories shot up more than five points. In the case of the inventories index, that component crossed into expansion territory and rose to its highest level since 2018. This is a very important development for GDP as even a modest rebuilding of inventories has scope to provide a big boost to the headline growth rate.

ISM Manufacturing vs. New Orders



Source: Institute for Supply Management and Wells Fargo Securities

Shot Across the Bow for Friday's Jobs Report

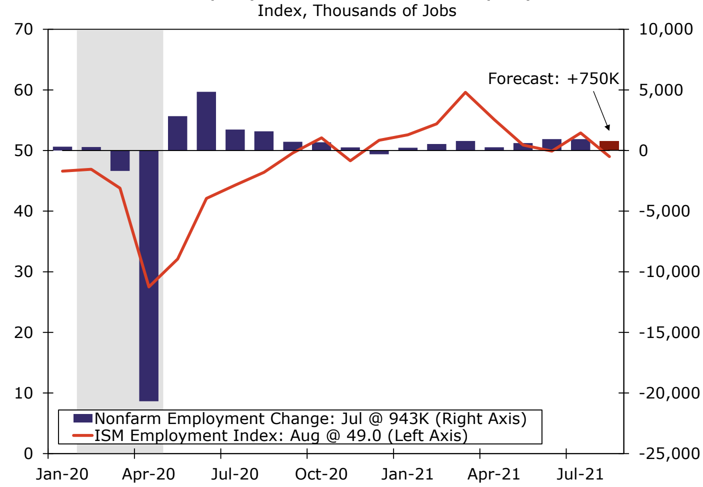
In the wake of last week's virtual Jackson Hole conference, financial markets are paying even closer attention to inflation and jobs, particularly in the lead-up to Friday's all-important jobs report. The employment component slipped back into contraction territory at 49.0. This still appears to be more of a supply problem than a demand issue. A respondent in the fabricated metals space put it simply saying that they "continue to be unable to hire hourly personnel or machine operators due to few applicants."

The difficulty finding labor in August is warning sign that Friday's headline number will not likely get much help from manufacturing payrolls and that a lack of labor remains a challenge to hiring more broadly. In light of this, we have dialed back our August payroll number to an increase of 750K.

Those in agreement with the Fed that inflation is transitory will seize upon the fact that the prices paid index posted a 6.3-point drop, the largest decline of any subcomponent. Even after that drop though, this leading indicator for factory gate prices is still at 79.4, which suggests continued price pressure, just somewhat less intense than last month.

ISM Employment Index & Employment

Index, Thousands of Jobs



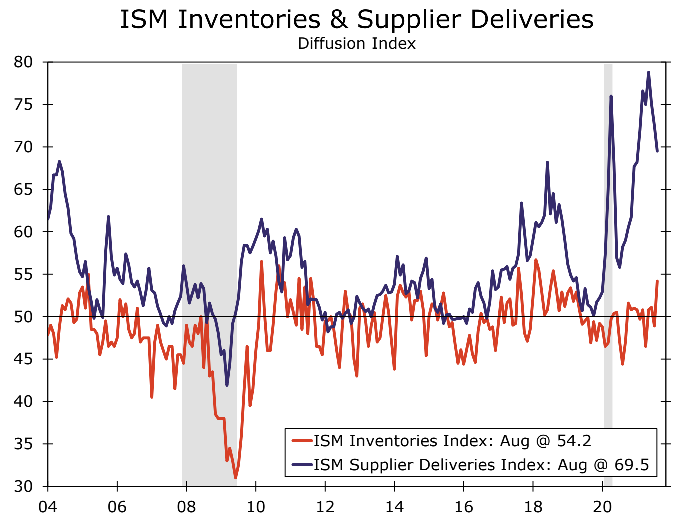
Source: Institute for Supply Management, U.S. Department of Labor and Wells Fargo Securities

Under Pressure

After some glimmers of hope earlier this summer, it is becoming increasingly evident that the supply chain dynamics are worsening rather than improving. The dip in the supplier deliveries component struck us as out of sync with various industry comments and our own Pressure Gauge, our at-a-glance tool for monitoring supply chain problems (see table).

More ships were at anchor off the coast of California and the cost of moving a 40-foot shipping container from Shanghai to Los Angeles broke into five figures, reaching $10,721 in August. That is a staggering increase from the cost before the pandemic, which was closer to $1,500 dollars. A purchasing manager in the chemicals industry noted that they "continue to see extended lead times due to port delays and sea container tightness."

The improvement in inventories may point to shorter waits for supplies that are either sourced domestically or already here. A top concern is that COVID outbreaks, particularly in Asia, and the restrictive measures to contain those outbreaks mean slower production further up the pipeline. We are not out of the woods by a long shot when it comes to supply chain pressures.



Source: Institute for Supply Management and Wells Fargo Securities

Pressure Gauge

Indicator		Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21
Time	**ISM Manufacturing Supplier Deliveries**	57.3	65.0	76.0	68.0	56.9	55.8	58.2	59.0	60.5	61.7	67.7	68.2	72.0	76.6	75.0	78.8	75.1	72.5	69.5
	ISM Services Supplier Deliveries	52.4	62.1	78.3	67.0	57.5	55.2	60.5	54.9	56.2	57.0	62.8	57.8	60.8	61.0	66.1	70.4	68.5	72.0	
	Ships at Anchor-LA & Long Beach (Mo. Avg.)	0.0	0.0	0.0	0.0	0.0	0.5	2.0	1.5	4.3	10.0	22.2	32.1	32.6	26.5	21.5	18.9	13.8	21.4	33.4
Volume	**Taiwan Electronic Product Exports** (YoY)	46.2%	18.1%	24.3%	13.2%	23.8%	15.6%	19.1%	26.1%	21.8%	19.5%	22.2%	47.5%	14.4%	24.5%	34.0%	29.6%	29.8%	33.6%	
	Cass Freight Index (YoY)	-7.5%	-9.2%	-22.7%	-23.6%	-17.8%	-13.1%	-7.6%	-1.8%	2.4%	2.7%	6.7%	8.6%	4.1%	10.0%	27.6%	35.3%	26.8%	15.6%	
	Unfilled Orders (3-Mo. Ann.)	7.6%	3.7%	0.9%	-2.2%	-0.3%	2.8%	4.0%	5.1%	6.2%	7.4%	6.7%	8.4%	10.8%	14.7%	15.1%	15.3%	13.1%	13.0%	
Price	**World Container Index (WCI)** (USD/40ft Box)	$1,633	$1,520	$1,500	$1,549	$1,788	$2,009	$2,144	$2,541	$2,592	$2,806	$3,955	$5,263	$5,227	$4,991	$4,919	$5,898	$7,052	$8,879	$9,556
	WCI: Shanghai-Los Angeles (USD/40ft Box)	$1,525	$1,433	$1,615	$1,718	$2,343	$2,923	$3,283	$3,934	$4,072	$4,047	$4,118	$4,186	$4,292	$4,234	$4,267	$5,453	$6,793	$9,797	$10,721
	PPI Transp. & Ware. of Goods (3-Mo. Ann.)	0.3%	-1.9%	-7.6%	-12.2%	-8.8%	1.0%	9.0%	8.0%	6.5%	7.8%	10.2%	10.7%	13.0%	16.3%	13.1%	20.7%	16.0%	16.0%	
	Dry Van Rate Per Mile (YoY of 4-Wk. Mov. Avg.)	-3.3%	-2.3%	4.1%	-3.6%	-4.5%	3.4%	20.2%	33.0%	41.3%	48.7%	48.1%	39.0%	36.5%	49.5%	51.4%	70.0%	69.2%	43.7%	28.6%
Inventory	**Inventory-to-Sales Ratio** (All Businesses)	1.42	1.50	1.73	1.55	1.41	1.36	1.35	1.35	1.35	1.35	1.35	1.30	1.33	1.26	1.25	1.26	1.25		
	ISM Manufacturing Inventories Index	46.5	46.9	49.7	50.4	50.5	47	44.4	47.1	51.6	50.8	51	50.8	49.7	50.8	46.5	50.8	51.1	48.9	54.2
	ISM Manufacturing Consumer Inventories	41.8	43.4	48.8	46.2	44.6	41.6	38.1	37.9	36.7	36.3	37.9	33.1	32.5	29.9	28.4	28.0	30.8	25.0	30.2
	Inventory Too Low (Net % of Firms)	-3.5%	-1.5%	-6.6%	-4.5%	1.2%	1.3%	2.7%	4.8%	4.4%	4.9%	6.5%	5.3%	4.5%	2.5%	7.0%	8.0%	11.0%	12.0%	
Labor	**Production & Manuf. Posts** (vs. Feb. 2020)	0.2%	1.3%	-30.0%	-31.6%	-23.7%	-13.8%	-6.1%	4.2%	12.9%	20.6%	27.4%	26.3%	38.2%	46.8%	63.5%	74.8%	76.7%	84.0%	78.0%
	Loading & Stocking Posts (vs. Feb. 2020)	1.4%	-0.4%	-32.5%	-32.7%	-17.6%	-0.8%	4.6%	12.3%	28.2%	38.8%	39.0%	26.3%	38.9%	46.4%	61.7%	72.7%	76.6%	90.2%	72.0%

Source: Institute for Supply Management (ISM), Bloomberg LP, Taiwan Ministry of Finance, U.S. Department of Labor, Drewry, U.S. Department of Commerce, National Federation of Independent Business (NFIB), Indeed.com and Wells Fargo Securities

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