

Economic Indicator — July 3, 2023

ISM Manufacturing Signals Eighth-Straight Month of Contraction

Summary

The June ISM manufacturing report was a dud and continues to signal the sector is broadly in contraction. All of the components were below 50, and the only positive takeaway in this release is that new orders contracted at a slower rate in June.

Economist(s)

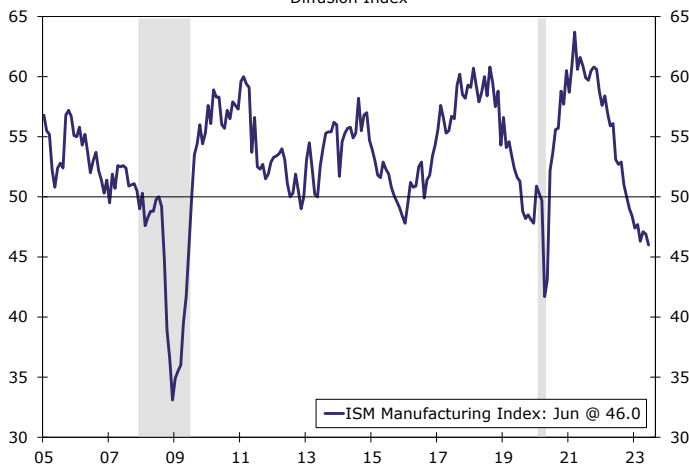
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ISM Manufacturing Composite Index
 Diffusion Index



Source: Institute for Supply Management and Wells Fargo Economics

June ISM Rains on Fourth of July Parade

After a string of relatively strong U.S. based data, the ISM manufacturing report on business for June was a dud. Every component of the survey slipped back below the 50-threshold designating expansion from contraction and at 46.0, the overall ISM index signaled the sector is contracting for the eighth consecutive month ([chart](#)).

A scan through the selected industry comments, however, suggests things are a little less dire. Most industries reference stable demand and steady business activity. The new orders index did rise to 45.6 last month, indicating orders are contracting but at a slower rate than in May ([chart](#)). But that improvement in new orders is one of the only strings to pull on for some signs of strength in this release.

Overall production registered one of the largest declines, slipping 4.4 points to 46.7 in June, marking its lowest index reading since the economy was coming out of the pandemic in May 2020. With production contracting at a faster clip last month, order backlogs rose, supplier delivery times got a bit longer and inventories slipped.

Outside of the rise in new orders, the only other area of positivity in today's release is that manufacturing price growth continues to contract. The prices paid index slipped to 41.8, and although the downward trend in prices is welcome news to Fed policymakers who are trying to quell inflation, the ISM release suggests it may be coming with somewhat of an uncomfortable hit to activity. Not only is the overall sector in contraction, but according to the ISM hiring is also shrinking.

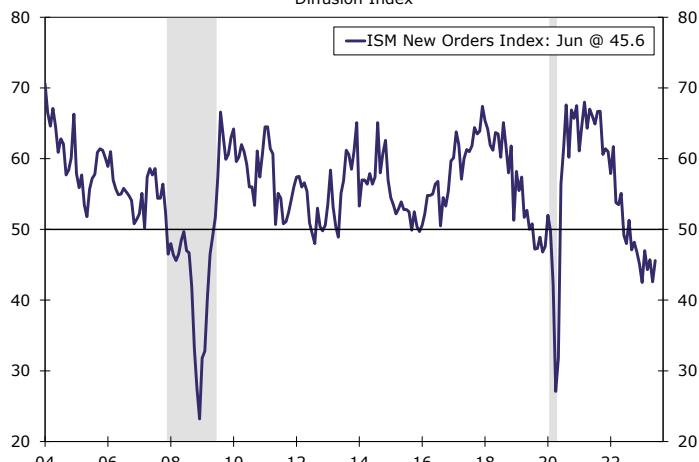
The hiring index fell back into contraction territory at 48.1 in June, after two months in expansion ([chart](#)). This is consistent with a slower pace of hiring and slightly higher layoff activity last month. But this measure has been unusually volatile in recent months and not necessarily the best predictor of overall U.S. hiring, which has continued at a robust clip.

The ISM hiring data add to a string of labor market data that are demonstrating demand is subsiding, but the cooling in the jobs market remains incremental rather than abrupt. When the full nonfarm payroll report for June is released on Friday, we look for employers to have added a still-strong 245K net new jobs during the month.

While the ISM signals the sector is in correction, other manufacturing data have showed somewhat of a recent bounce in activity. The purchasing manager index is calculated as a diffusion, and thus does not show actual levels of production but merely how widespread the change in activity is throughout the sector. We still see conditions growing less and less favorable for manufacturing this year. But since manufacturers have not overproduced going into this slowdown, stabilizing demand could minimize the blow to activity.

ISM New Orders

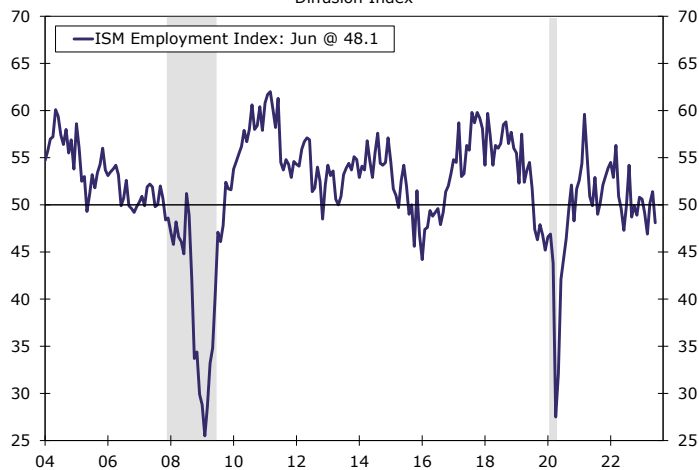
Diffusion Index



Source: Institute for Supply Management and Wells Fargo Economics

ISM Employment

Diffusion Index



Source: Institute for Supply Management and Wells Fargo Economics

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