

Economic Indicator — August 2, 2021

ISM: Slower Manufacturing Expansion + Pressure Gauge Update

Summary

The July ISM report tells us the manufacturing expansion continues to be limited by supply-chain issues. By some measures, those issues were worse in July, others provide some rays of light. Our [Pressure Gauge](#), a tool to measure supply-chain constraints, shows that it remains premature to call the peak in current bottlenecks.

Economist(s)

Tim Quinlan

Senior Economist | Wells Fargo Securities, LLC
tim.quinlan@wellsfargo.com | 704-410-3283

Sarah House

Senior Economist | Wells Fargo Securities, LLC
sarah.house@wellsfargo.com | 704-410-3282

A Slower Pace of Expansion, but There Are Some Positives

The ISM index came in at 59.5, the first sub-60 headline reading since January. The outcome was short of a consensus expectation for 61.0. The news was mixed and while supply-chain dynamics are a long long way from returning to normal there were a couple signals of improvement, which we discuss below in our analysis of the latest check on our Pressure Gauge.

One unalloyed positive was the fact that the employment component crossed back into expansion, rising to 52.9 in July from 49.9 in June. Comments continue to point to the difficulty finding labor, but this is a welcome step in the right direction and suggests at least some easing in labor constraints.

Prices remain a major concern but a 6.4-point drop since last month puts the prices index at 85.7 which is merely very hot compared with last month's downright scorching 92.1. This is not enough of a softening to suggest that upward pressure on goods inflation has fully run its course, but again it is incremental progress in a less inflationary direction.

Both trade measures fell, with export orders down only slightly to 55.7 from 56.2 previously and imports posting the biggest move of any sub-component, a 7.3-point drop to 53.7. Electrical equipment was one of the three industries posting a decline in imports as semi-conductors remain in short supply.

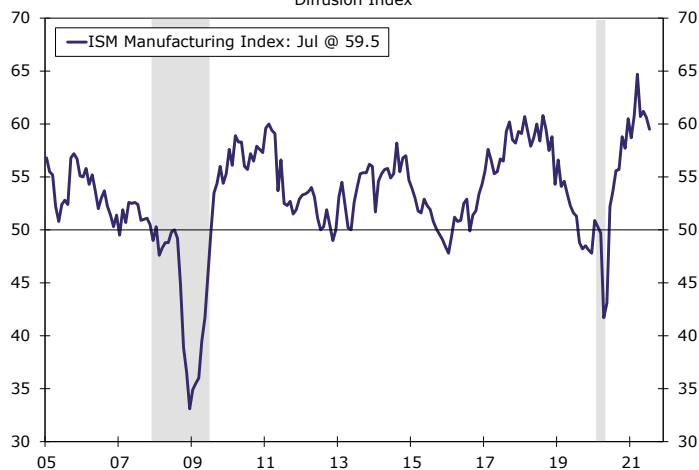
Wait Times Are Shorter, but Customer Inventories Hit All Time Low

As we have been saying for months now, the biggest issue facing manufacturers is getting the materials, parts and labor they need. July's ISM report showed some improvement on this front. A respondent in the chemicals space said "Supply chains are slowly, very slowly filling up." Most notably, the supplier delivery index fell to a five-month low of 72.5. However, that remains a far cry from "normal" and is the highest reading outside the COVID era in more than four decades. Slower growth in new orders appears to be helping manufacturers catch up, with the index slipping 1.1 points, although backlogs remain elevated.

Similarly, easing in input costs growth gives some indication that demand and supply is tippy-toeing back toward balance, but here too, the net share of businesses reporting higher input costs suggests businesses are not seeing much relief yet.

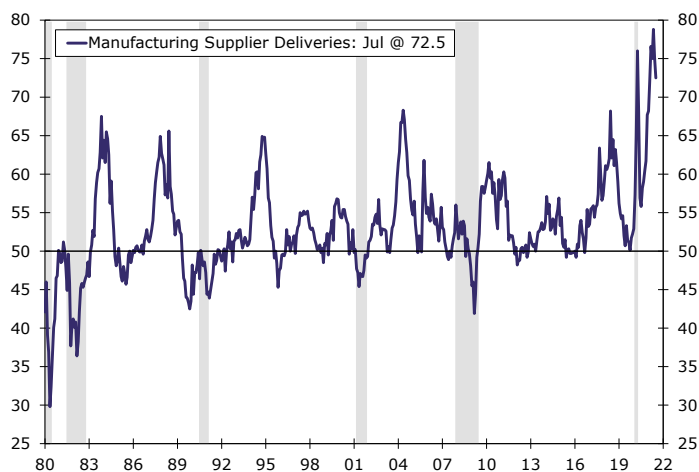
A hallmark of the pandemic era has been shortages and items being out of stock. It has been a nightmare for purchasing managers to try to bring some balance to inventories. In July, the inventories index slipped back into contraction territory falling to 48.9. Meanwhile, businesses' assessment of their customer's inventories tumbled another 5.8 points to 25.0, a new all-time low since tracking began in the late 1990s.

ISM Manufacturing Composite Index
Diffusion Index



Source: Institute of Supply Management and Wells Fargo Securities

ISM Manufacturing Supplier Deliveries

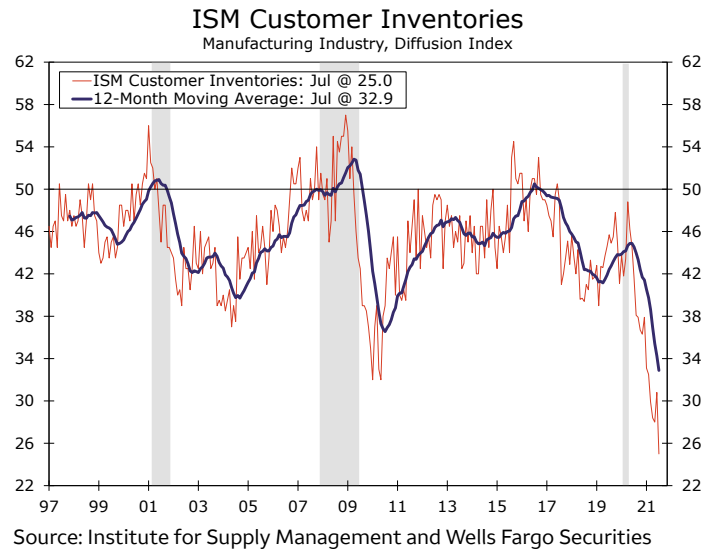


Source: Institute for Supply Management and Wells Fargo Securities

Pressure Gauge: Calling the Turn in Bottlenecks Premature

Supply issues are not just a concern for the manufacturing sector at these extremes either. The nearly 30-year high in core CPI has been underpinned by surging goods inflation, while the disappointing pace of Q2 GDP was tied in no small part to businesses further drawing down already scant inventories. No surprise then that the question of "When will these supply pressures begin to ease?" is at the forefront of the minds of business owners, investors, policymakers and consumers alike.

Our Pressure Gauge, which we introduced in our recent [Chains that Bind](#) series, shows that calling the peak for supply constraints remains premature. Every data point available for July is flashing amber to red. Bottlenecks are therefore likely to keep the heat turned up on prices and keep inflation elevated in the coming months, and inventory restocking is not yet in the cards. While the easing in the supplier delivery index is a step in the right direction, supply chains remain a long way off from the seemingly frictionless state of before COVID.



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 | |
|-----------|--|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| 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 |
| | 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 | |
| | 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 | 21.3 |
| 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% | |
| | 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% | |
| | 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% | 15.2% | 13.1% | |
| 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 |
| | 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 |
| | 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% | |
| | 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% |
| 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 | | |
| | 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 |
| | 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 |
| | 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% | |
| Labor | Production & Manufacturing Posts (vs. Feb. 2020) | 0.3% | 1.2% | -30.0% | -31.6% | -23.7% | -13.7% | -6.3% | 4.2% | 13.0% | 20.8% | 27.4% | 26.3% | 38.3% | 46.8% | 63.5% | 74.8% | 76.8% | 83.7% |
| | Loading & Stocking Posts (vs. Feb. 2020) | 1.5% | -0.4% | -32.5% | -32.6% | -17.4% | -0.7% | 4.7% | 12.4% | 28.2% | 38.7% | 39.0% | 26.2% | 38.9% | 46.2% | 61.7% | 72.8% | 76.8% | 90.0% |

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

See *The Chains that Bind Series* for more detail on the Pressure Gauge:

[Introducing the Pressure Gauge \(07/27/2021\)](#)

[No Relief for Inflation Until Supply Constraints Ease \(07/28/2021\)](#)

[The Cupboard Was Bare \(07/29/2021\)](#)

[Profits & the Courage to Pay Up \(07/30/2021\)](#)

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Economics Group

| | | | |
|----------------------|--------------------------|----------------|--|
| Jay H. Bryson, Ph.D. | Chief Economist | (704) 410-3274 | jay.bryson@wellsfargo.com |
| Mark Vitner | Senior Economist | (704) 410-3277 | mark.vitner@wellsfargo.com |
| Sam Bullard | Senior Economist | (704) 410-3280 | sam.bullard@wellsfargo.com |
| Nick Bennenbroek | International Economist | (212) 214-5636 | nicholas.bennenbroek@wellsfargo.com |
| Tim Quinlan | Senior Economist | (704) 410-3283 | tim.quinlan@wellsfargo.com |
| Azhar Iqbal | Econometrician | (212) 214-2029 | azhar.iqbal@wellsfargo.com |
| Sarah House | Senior Economist | (704) 410-3282 | sarah.house@wellsfargo.com |
| Charlie Dougherty | Economist | (704) 410-6542 | charles.dougherty@wellsfargo.com |
| Michael Pugliese | Economist | (212) 214-5058 | michael.d.pugliese@wellsfargo.com |
| Brendan McKenna | International Economist | (212) 214-5637 | brendan.mckenna@wellsfargo.com |
| Shannon Seery | Economist | (704) 410-1681 | shannon.seery@wellsfargo.com |
| Hop Mathews | Economic Analyst | (704) 383-5312 | hop.mathews@wellsfargo.com |
| Nicole Cervi | Economic Analyst | (704) 410-3059 | nicole.cervi@wellsfargo.com |
| Sara Cotsakis | Economic Analyst | (704) 410-1437 | sara.cotsakis@wellsfargo.com |
| Coren Burton | Administrative Assistant | (704) 410-6010 | coren.burton@wellsfargo.com |

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