



# Economics Group

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## ISM: Slowdown—Not a Collapse, Easier Prices

***U.S. manufacturing continues to slowdown as output and orders fell below breakeven but employment held up. Meanwhile, the moderation in prices paid suggests some relief ahead for input prices.***

### Slowdown in Train: Growth at a Moderate Pace

American manufacturing firms continue to come to grips with a modest pace of growth in the overall economy that pleases only the grumpy. Headline ISM declined to 50.6 in August (top chart) just above the breakeven level with production and new orders coming in below their breakeven levels. This decline in the index is consistent with slower gains in the overall economy. The production index came in at 48.6 in August after a reading of 52.3 in July. Seven industries reported gains in August including computers & electronics, paper, fabricated metals and transportation. Our outlook for a moderate pace of growth for the national economy in the second half of this year remains unchanged.

Employment also moderated and yet remained in expansion mode. At 51.8, the employment component is down from 53.5 in July and suggests continued modest gains in manufacturing jobs going forward. According to the ISM survey, eight industries reported a gain in jobs including paper, chemicals, transportation, and machinery.

### New Orders Component Suggests Slowdown Ahead

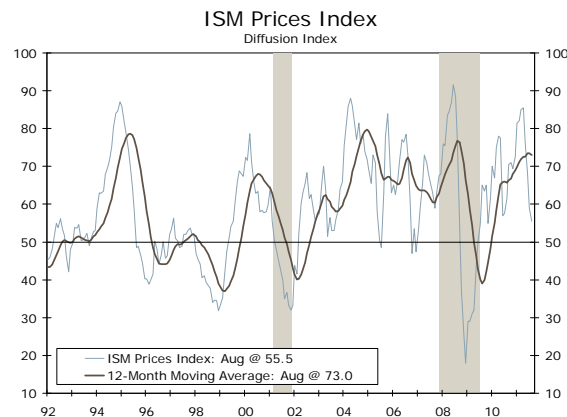
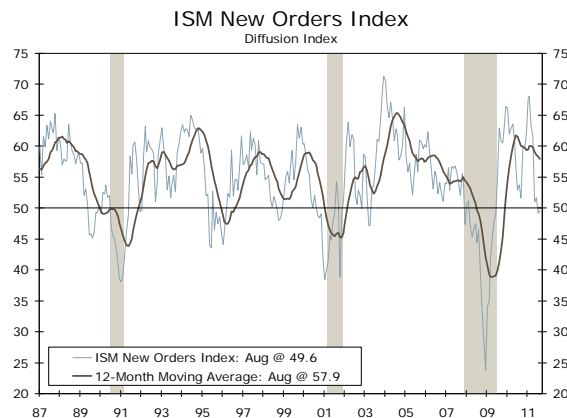
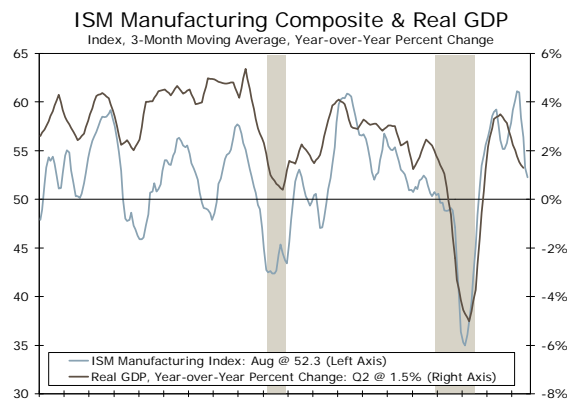
New orders (middle chart) remained below breakeven in August and intimates that there is less support for gains in manufacturing production in the months ahead. Seven industries reported growth in new orders including paper, fabricated metals, apparel and transportation. Since orders are a leading indicator, the drop in this index suggests the second half pickup in economic growth will be far less than some had estimated.

On the trade side, the new export orders component remained above 50 and indicates that American manufacturers see modest strength in orders from foreign countries. Seven industries reported a gain in export orders. This result suggests many manufacturing industries, for example paper, computers and chemicals, in the United States can compete globally.

### Prices Paid: Slowdown a Good Sign for Cost Control and Profits

Continued moderation in the prices paid component indicates reduced input cost pressures on businesses and is a welcome sign of reduced inflation pressures at the wholesale level. The price index at 55.5 in August compared to 59.0 in July continues the moderation seen in recent months (bottom chart). Twelve of the 18 sectors reported higher prices paid including primary metals, chemicals, paper and machinery and electrical equipment.

For inflation, the complete pass-through of rising commodity prices to consumer prices does not seem likely, but there certainly continues to be some elevation in prices. For decision makers in both the private and public sectors, the bias on future prices is to the upside even though the current pace of inflation appears moderate.



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