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TD Economics

Data Release: U.S. manufacturing activity contracts in August after five consecutive months of expansion

- The Institute for Supply Management (ISM) manufacturing index fell into contractionary territory after five months of expansion, giving up 3.2 points for a 49.4 reading in August. The print was much weaker than the market expectation which called for a smaller pullback to 52.0.
- Slower activity was observed in nine of ten components in August; new export orders held at 52.5 and recorded the seventh consecutive month of increase. Most concerning was the large decline in new orders (-7.8 to 49.1), recording a contraction for the first time since December 2015.
- A number of subcomponents contracted in August: production (-5.8 to 49.6), customers' inventories (-1.5 to 49.5), and imports (-5.0 to 47). Adding to the misery was a deterioration in the employment outlook (-1.1 to 48.3), weaker supplier deliveries (-0.9 to 50.9), less inventories (-0.5 to 49), and a decline in the backlog of orders (-2.5 to 45.5).
- Price growth slowed for the third consecutive month (-2 to 53), suggesting further easing in raw material prices since their recent spike this past May.
- Six of the eighteen manufacturing industries reported growth in August – down from eleven in July. Eleven industries reported a contraction in activity in the month.

Key Implications

- The August ISM data places some doubt on the health of what seemed like a nascent recovery in U.S. manufacturing, a sector that had been hit hard by weaker foreign demand and a strong dollar. While there were some signs of cautiousness in the previous July report, the contraction in the major forward looking indicators this month (employment, new orders, and order backlog) suggests a sector still struggling to overcome numerous headwinds.
- The resilience of the consumer has been the main driving force supporting U.S. economic over the past year. This was confirmed yet again by the strong July growth in personal income and consumption reported earlier this week. A strong U.S. consumer will help, but a further improvement in other factors – namely stronger foreign demand and a pick-up in business investment – will be necessary to restore sustainable growth to the U.S. manufacturing sector.

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