ISM Manufacturing Dropped Sharply in July 2024 Across Multiple Key Categories

- The ISM Manufacturing PMI fell to 46.8 in July 2024, down from 48.5 in June
- Employment plummeted to 43.4 in July 2024
- New Orders posted a contractionary 47.4 result for July 2024, giving back some of June’s gains
- Commodity Price pressures intensified, with the ISM Manufacturing PMI component index rising to 52.9 for July 2024

The ISM Manufacturing PMI fell dramatically in July 2024 to a topline reading of 46.8. Production, New Orders and Employment all dropped sharply for the month, leaving little doubt through either current conditions or forward-looking perspectives that the U.S. economy’s manufacturing sector is in outright contraction. Commodity Prices continue to pressure manufacturers’ bottom lines while cost-passthrough potential appears to be drying up as consumers become more cautious in their spending habits.

The ISM Manufacturing PMI diffusion index indicates the net percentage of manufacturers who are experiencing expanding or contracting activity across various categories, with a reading below 50 revealing net contraction across the manufacturing sector.

The ISM Manufacturing PMI’s Employment component index fell to 43.4 for July 2024. The Employment metric has posted only one expansionary reading this year, in May 2024 (51.1) and only two (2) such readings in the past year (51.2; September 2023). The sharp decline in July’s Employment result puts that sub-index in territory that has historically only been breached in the run-up toward recessions. The last four times the Employment sub-index was stuck in a downward trend and ultimately fell below July 2024’s reading of 43.4 were in April 2020, October 2008, December 2000 and August 1990 – all dates coinciding with recessions. The U.S. economy’s manufacturing base appears to be capitulating to the sustained combination of high interest rates, weak homebuying, and consumers’ price tag fatigue.
Both the New Orders and Production component indices of the ISM Manufacturing report fell significantly in July 2024. The New Orders component gave back some of a bounce in June, having risen from 45.4 to 49.3 for that month. But the July 2024 Production sub-index result presents far more concern. The Production component’s reading of 45.9 in July is the weakest post-pandemic result to date, and the lowest the index has fallen since December 2019 outside of the pandemic’s temporary shocks. Manufacturers are facing contractionary conditions in New Orders, which suggests that the second half of 2024 offers little hope for a boost, and current Production reveals that cutbacks are in order for the sector. Employment in manufacturing may well be set for a downturn through the remainder of this year.

Manufacturers’ cost pressures posted their seventh consecutive reading above the breakeven threshold of 50, rising to 52.9 for July 2024. This compares with June’s reading of 52.1. Although manufacturers’ costs have endured upward pressure throughout the year thus far, consumer price inflation has continued to ease. This contrast suggests that manufacturers have not been able to pass their rising costs onto consumers efficiently. With average wage growth for workers in manufacturing industries still exceeding 4% year-over-year – a pace not seen sustained since before the 2008 financial crisis – pressure on manufacturers’ bottom lines looks to remain elevated through the second half of 2024.

The July 2024 ISM Manufacturing PMI report indicates that manufacturers are entering a period where productivity enhancing investment will be necessary to maintain profit margins. High interest rates have been a dampener toward that end as the Fed has worked to extinguish inflation’s impact on the broader economy – in part by consciously slowing business activity. But the Fed is now apparently set to begin cutting rates as early as their September 2024 policy meeting. If consumer price inflation continues to cooperate by remaining on its renewed downward trajectory, PNC’s forecast of two (2) 25 basis point Fed Funds rate cuts this year look to be right on time to limit the U.S. manufacturing sector’s slide into contraction.

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