

ISM Manufacturing Still Contractionary, Rising Only to 47.2 for August 2024

- The ISM Manufacturing PMI rose modestly to 47.2 in August 2024
- Commodity Price pressures continued to warn of inflation risks in August 2024, rising to 54.0 from 52.9 in July
- New Orders on a five-month contractionary slide, falling to 44.6 in August 2024
- Employment among manufacturers rose to 46.0 but still illustrating sector weakness

The ISM Manufacturing PMI rebounded modestly in August 2024 after the report came in below expectations for July. The topline ISM Manufacturing Index reading was 47.2 for the month, up from 46.8 in July. New Orders, Production and Employment categories are all demonstrably weaker than even the middling readings posted during the opening months of this year. Of further concern is that Commodity Prices continue to pressure manufacturers' bottom lines, keeping the risks of broader inflationary pressures across the U.S. economy from being extinguished completely.

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. Outside of July's 46.8 result, the topline reading of 47.2 in August 2024 is the lowest the index has been since December 2023 (47.1).

The ISM Manufacturing PMI's Employment component index rebounded in August 2024 to a reading of 46.0 – up from a starkly disappointing 43.4 result in July. The Employment metric has posted only one expansionary reading since the start of 2024, in May (51.1) and only two (2) such readings in the past year (51.2; September 2023). The Bureau of Labor Statistics' mid-year industry employment revisions revealed that 115,000 fewer jobs in manufacturing have been created over the past year than was previously estimated. This revision aligns with the ISM Manufacturing reports consistently weak Employment sub-index results over that time. The U.S. economy's manufacturing base appears to have capitulated to the sustained combination of high interest rates, weak homebuying, and consumers' price tag fatigue.

A weak New Orders result was the standout downside influence on August's ISM Manufacturing PMI report. The New Orders component index fell to 44.6 in August 2024, its lowest reading since May 2023 (42.6). Only manufacturers' Backlog of Orders component index (43.6) now reads as more contractionary than New Orders among the report's sub-categories. Weakness in New Orders is forward-looking in nature, indicating the need for manufacturing capacity in the months to come. Indeed, the Federal Reserve's Capacity Utilization metric for the U.S. economy's manufacturing sector has hovered barely north of 77% throughout 2024 – a utilization rate last seen in 2019, prior to the COVID-19 economy-wide disruptions. With New Orders clearly in the doldrums, new manufacturing activity and hiring will be a drag on broader economic activity at least through the remainder of the year.

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Manufacturers' cost pressures posted their eighth consecutive reading above the breakeven threshold of 50 in August 2024, rising to 54.0 for the month. This compares with July's reading of 52.9. The contrast between rising manufacturing costs and slowing consumer price inflation prevents a complete dismissal of inflationary risks – especially with the Fed set to ease monetary policy beginning in September with a 25 basis point cut to the Fed Funds rate. Business investment growth, according to the Bureau of Economic Analysis, has accelerated in each of the past four quarters and lower borrowing costs could fuel further investment as businesses look to offset declining New Orders and Production with productivity-enhancing investment. The long-run impact on inflation of such developments would be positive with respect to keeping inflation under control. But the near-term implications of inviting additional investment dollars into the room as cost pressure remains high is that there is still risk of cost passthrough to consumers – i.e., inflation – in the year ahead.

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