

ISM Manufacturing Index Increased to 47.6 for August 2023, Still Contractionary but Reversing Course

- **The ISM Manufacturing PMI increased to 47.6 in August 2023**
- **Production regained the breakeven 50.0 mark for August 2023, up from contractionary readings in June & July**
- **Pricing conditions faced by manufacturers remained contractionary in August 2023 at 48.4, but reversed significantly from recent months' deterioration**

The ISM Manufacturing PMI report for August 2023 increased to 47.6, up from 46.4 in July. Though still contractionary, August's gain is the second consecutive monthly increase for the Manufacturing PMI report and sees the topline gauge now creeping back toward breakeven conditions with gains across almost all major component indices.

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. All categories except Production posted results below this threshold in August but with signs of improvement for most.

The New Orders component index of the ISM Manufacturing report revealed a decline for August 2023, falling to 46.8 in contradiction to gains across other components of the index. July's result was 47.3 which was a second monthly gain for that measure of new demand among manufacturers. The Bureau of Economic Analysis' Personal Consumption Expenditure report, released on Thursday (8/31) revealed solid consumer demand for goods, however, hinting at the potential for manufacturers to see stronger New Orders in the second half of 2023. Still-contractionary readings for Customers' Inventories (48.7) out of the August 2023 ISM Manufacturing PMI report reinforce this potential.

Manufacturers' pricing conditions showed signs of life according to the August 2023 ISM Manufacturing report. The Commodity Prices component index rose to 48.4 for the month after languishing at post-pandemic lows from May through July, reaching 41.8 in the June numbers. Oil prices have risen since early summer, which will have played a part in revitalized costs and pricing pressures facing the U.S. manufacturing sector. Those gains continued to start the month of September, making it likely that the ISM Manufacturing report's Commodity Prices component could break above the expansionary threshold of 50 in the coming months. This implies that consumer price inflation, and thus the Fed's monetary policy decision making process, will face yet another round of pressure before the year ends.

The Employment component index of the ISM Manufacturing report continues to be difficult to interpret. Labor and skills shortages continue to make headlines, which suggest that manufacturers' ISM report results would have difficulty entering expansionary territory even if labor demand were at its peak – the difficulty in finding qualified workers would simply stunt any intentions to hire. But the ISM Manufacturing report's Production and New Orders readings have also been contractionary for most of the past year, with the Production component just reporting at the 50.0 breakeven threshold in the August 2023 report for only the second time this year. Contractionary readings in these key indicators of manufacturers'

demand for labor would seem to legitimize the sub-50 readings that have been in place for the Employment sub-index in recent months.

Again looking ahead, however, the Bureau of Labor Statistics' August 2023 Employment Situation report revealed an increase of 16,000 manufacturing jobs across the U.S. – the strongest pace of hiring in the sector since October 2022. Employment appears to be another component of the manufacturing sector that could regain expansionary conditions in the very near term.

Please reach out with any questions.

PNC Economics

economics@pnc.com

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