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ISM: Too Stagnant?

The headline August ISM index is broadly in line, slipping 0.2 point to 49.6 (Consensus: +0.2 point; Decision Economics: -1.1 points), with the stagnant picture it paints confirmed by key component indexes.

Notably, the new orders index slipped 0.9 point (to 47.1), the employment index 0.4 point (to 51.6), and the production index 4.1 points (to 47.2). The headline index was prevented from falling further only by a 0.6-point rise (to 49.3) in the supplier deliveries index, and a hugely mixed-messaged 4.0-point jump (to 53.0) in the inventories index.

Demand loss is the central problem. The critical new orders index was at 60.1 as recently as May, but the 12.3-point plunge suffered in June has not been reversed, at all, since. Proportionately, much more of that orders collapse was in domestic demand--with the export orders index at 53.5 in May, falling 6.0 points in June, and then stagnating.

It is hard to argue the underlying issue is insufficiently easy monetary policy--with the existing degree of "accommodation" apparently adequate to drive the orders index as high as it got in the springtime.

Evidently, some newly damaging factor entered the picture, causing a collapse of confidence on the demand side. Interestingly, however, it has not impacted employment to the same degree--perhaps a sign that companies are regarding the problem as transitory.

FOMC doves will still see ample reason to address the new problem with new stimulus. Hawks will probably focus on the healthy picture earlier as evidence that policy was working, with a lag, and will want to stand back and give the economy more time to heal itself.

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