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DECISION ECONOMICS, INC.

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Comments on Current Economic Indicators, Policy, and Events
Global Economy – United States

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Weakening ISM Across the Board

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September Institute of Supply Management Report Details

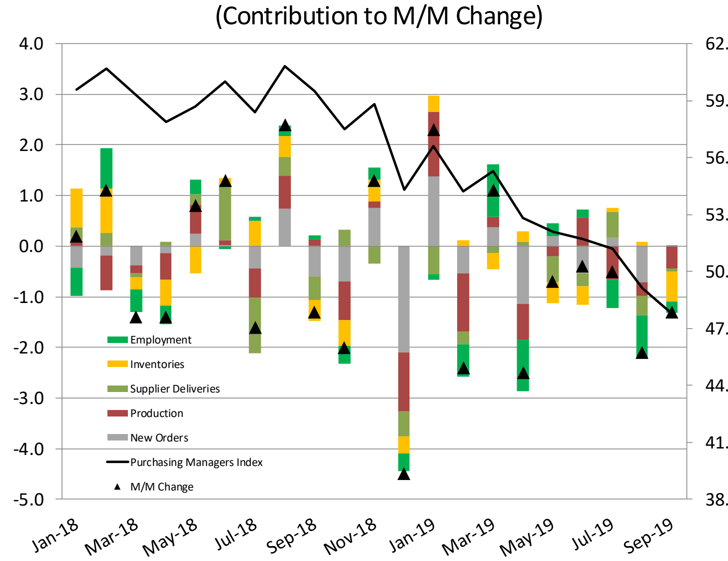
The ISM manufacturing index has entered its second month of contraction since an inventory correction in 2016 at 47.8 (DE: 49.6; Consensus: 50.0). The index breached the neutral 50 level in August due to a sharp deterioration in employment sub-index (47.4 in August vs. 51.7 in July). The employment sub-index has continued to weigh on the index with it declining this month to 46.3 from 47.4 in August.

The Chicago Market News International Business Barometer plunged to 47.1 Monday morning, which led our forecast to fall below 50 for this month.

Since non-manufacturing constitutes a much greater share of employment in the U.S. than manufacturing, we will be watching the ISM non-manufacturing index closely, as well as other gauges of consumer and business sentiment. While the non-manufacturing index has declined since 2018, it is still solidly in expansion territory around 55.

ISM Manufacturing: Broad Deceleration

(Contribution to M/M Change)



Sources: ISM, Bloomberg, and Decision Economics, Inc. (DE)

Bottom Line

ISM Manufacturing isn’t looking good. The decline in the index appears to be accelerating downward. The acceleration downward could either be transitory or a symptom of the sentiment decline that we’ve seen recently. The Fed will be closely watching to see how manufacturing issues transmit over to the services/non-manufacturing side of the economy and weigh on capital spending and hiring.

The likelihood of the Fed cutting rates at the October meeting has gone up slightly, which will be reinforced if the payroll report on Friday and other measures regarding the consumer continue to soften. As for now, we are holding our expectation of a 25 bps cut in December, but a weak Payroll number on Friday could lead us to revise on timing.

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