Economic Indicator Report · ISM Manufacturing PMI, August 2026

Hiring Arrived Just as the Order Book Cooled

The Manufacturing PMI slipped a point to 54.6 in August as new orders and backlogs gave back most of July's gain, while the Prices Index held at 71.1 for a second month and the latest payroll data showed factory employment rising for a second straight month.

Mark P. Vitner, Chief Economist | Piedmont Crescent Capital | September 1, 2026

EARLY SIGNALS

- **The expansion continued at a slower pace.** The Manufacturing PMI registered 54.6 in August, 1 percentage point below July's 55.6 and the eighth consecutive month above 50. ISM's own mapping puts that reading at 2.4 percent real GDP growth on an annualized basis, four tenths below what the July reading implied.
- **New orders gave back most of July's gain.** The New Orders Index fell 3 points to 53.7 and the Backlog of Orders Index fell 3.2 points to 51.8, the two largest declines in the report, and the biggest disappointment, though both have now been in expansion for eight months.
- **Production barely moved.** The Production Index slipped two tenths to 58.3 and has expanded for ten consecutive months. Twelve of 18 industries reported higher output and two reported less.
- **Hiring held, narrowly.** The Employment Index fell 1.6 points to 51.2, a second month above 50. In the raw responses, 76.7 percent of panelists reported no change in head counts, the highest share in the four months the release publishes. This remains a productivity-led expansion.
- **Prices did not move at all.** The Prices Index registered 71.1 for a second consecutive month, a 23rd month of rising input costs, with steel, aluminum, tariffs and petroleum-based products still named as the primary drivers.

KEY TAKEAWAYS

Key Concept	Findings
Manufacturing PMI	Fell to 54.6 from 55.6, an eighth straight month of expansion following a ten-month contraction. The 12-month average is 51.8, with a high of 55.6 in July and a low of 47.9 in December. ISM's mapping corresponds to 2.4 percent real GDP growth on an annualized basis.
New Orders and Backlogs	New orders fell 3 points to 53.7 and backlogs fell 3.2 points to 51.8. Eleven industries reported higher new orders and three reported declines. Customers' inventories improved to 42.8 from 40.7 and have been judged too low for 23 consecutive months, which historically points to future production. This is where ongoing geopolitical and policy uncertainty is taking a toll.
Production	Down two tenths to 58.3, a tenth consecutive month of growth. Twelve industries reported higher output, while Wood Products and Computer & Electronic Products reported less.

Key Concept	Findings
Employment	Down 1.6 points to 51.2, a second month in expansion. Seven industries added workers, three cut them and eight were unchanged. The ratio of panelists hiring to those managing head counts narrowed to 1.3 to 1 from 1.5 to 1 in July.
Prices	Unchanged at 71.1, a 23rd month of increases. The share paying more fell to 46.2 percent from 50.2 percent, but the share paying less fell to 4.0 percent from 8.1 percent. Fifteen industries paid more for raw materials and none paid less.
Supplier Deliveries	Slower for a ninth month, at 59.3, and the only one of the five headline components to improve. Fourteen industries reported slower deliveries and none reported faster. Lean inventories and shortages in parts of the economy are behind the slower deliveries.
Trade	New export orders rose two tenths to 53.2 for a second month of growth, while the Imports Index fell 3.2 points to 52.5 from July's 55.7.
Breadth	Fifteen of 18 industries grew and two contracted, Wood Products and Chemical Products. By GDP weight, however, the contracting share widened to 22 percent from 20 percent, and 2 percent of manufacturing GDP was in strong contraction against none in July. Chemical Products alone is close to a fifth of manufacturing value added.
Policy Signal	Growth that is decelerating without contracting, alongside input costs still in the 70s, argues for patience rather than a pivot. We look for the Fed to hold through the meetings before the November 3 midterm elections and to raise the target range in December, with one further increase in 2027 to a terminal 4.00 to 4.25 percent.

THE OVERVIEW

The Manufacturing PMI fell 1 percentage point to 54.6 in August, its first decline since June and its eighth consecutive month above 50, and the composition of that decline matters more than its size. Four of the five components that feed the headline weakened, and the one that improved, supplier deliveries, is the inverted gauge, so slower deliveries added eight hundredths of a point to an index that fell a full point. New orders alone accounted for six tenths of the decline. That is a demand story rather than a supply story. Remember that the ISM index is a diffusion index and provides a reading on the breadth of the strength in the factory sector, not the magnitude of that strength.

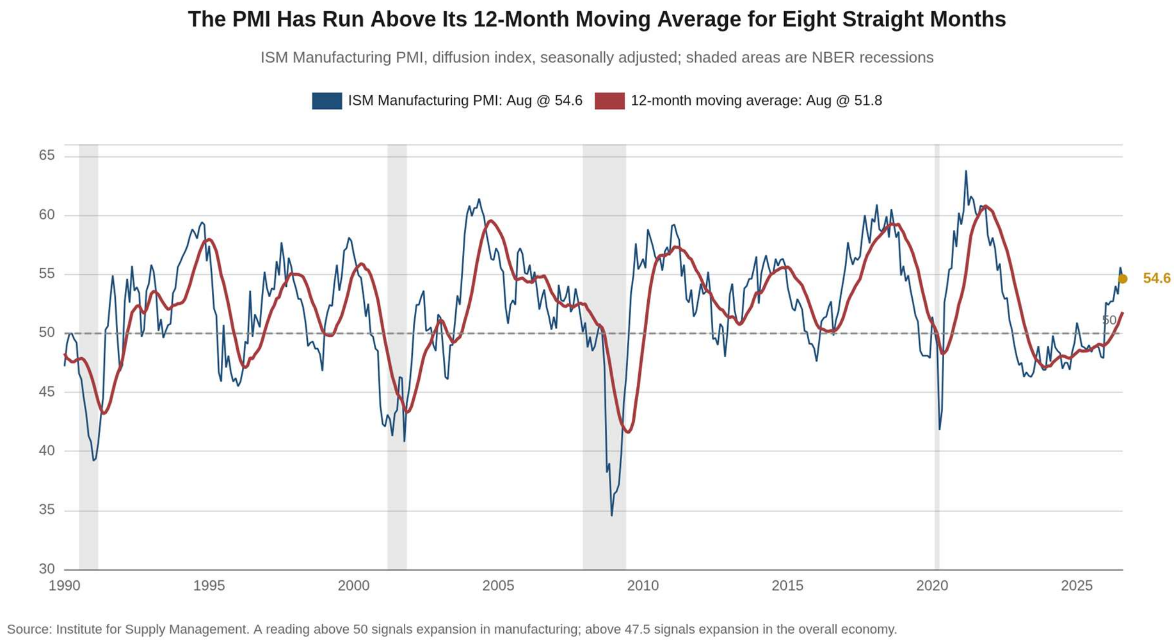

Exhibit 1. The August reading is the eighth straight month above the breakeven line and the eighth straight month above the 12-month moving average, which stands at 51.8.

The gap between the two breadth measures in this report is almost entirely one industry. Fifteen of 18 industries grew in August, yet ISM reports that 22 percent of manufacturing GDP was contracting, up from 20 percent in July. Chemical Products is nearly all of the difference. It is the largest manufacturing industry by value added, $578 billion of the sector's $2.9 trillion in 2025 on Bureau of Economic Analysis figures, close to a fifth of the total and nearly twice the next largest, because chemicals are an input to almost everything else the sector makes: plastics and rubber, coatings, packaging, textiles, agricultural products and processed food, and the category carries pharmaceuticals as well. Chemical Products and Wood Products, worth about 2 percent, were the only two industries in contraction in August, and together they come to almost exactly the 22 percent ISM reports.

The factory-cycle sequence we have cited all year runs from orders to backlogs to hours worked to hiring, and in August the front of that chain gave ground while the back of it was still improving. New orders fell to 53.7, the lowest since March, and backlogs fell to 51.8. The workweek and payrolls, which sit at the back of the chain, were still gaining as of July, when average weekly hours in manufacturing reached 41.7 and manufacturing payrolls added 5,000 jobs after 11,000 in June. Hiring follows orders with a lag of several months, however, so a softer order book in August is a statement about the fourth quarter rather than about Friday's employment report.

The Prices Index registered 71.1 for a second straight month, and the way it got there is not encouraging. The share of respondents paying more fell to 46.2 percent from 50.2 percent, which on its own would have pulled the index down. It did not, because the share paying less fell by almost exactly as much, to 4.0 percent from 8.1 percent. What the survey describes is a spreading standstill on costs, with nearly half the panel still paying up each month and almost nobody negotiating anything back.

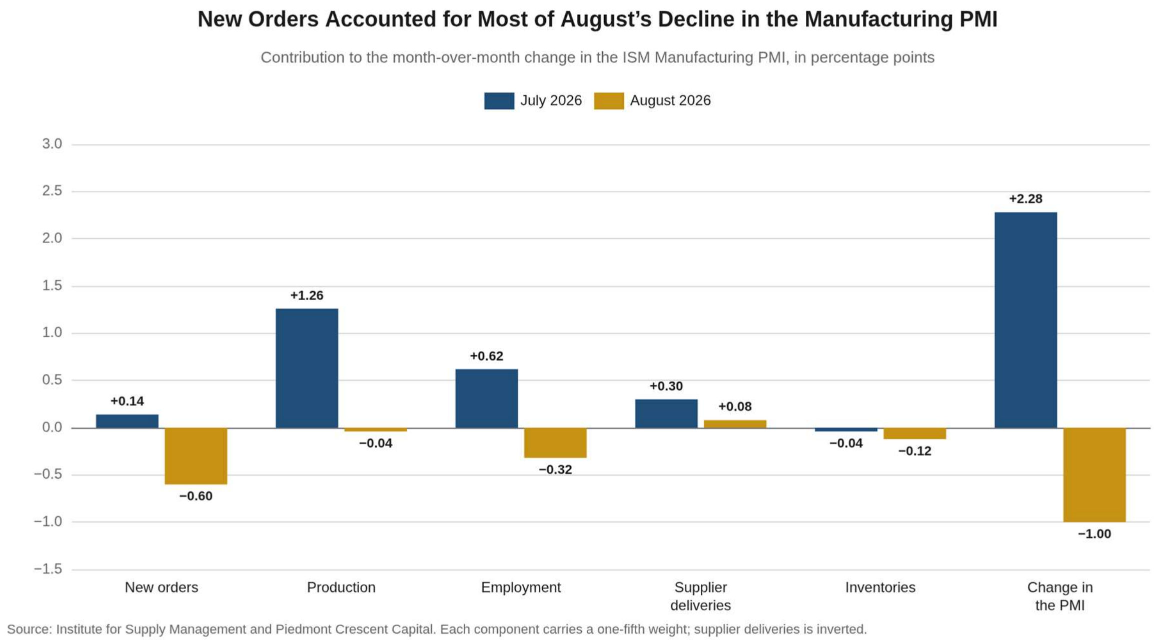

Exhibit 2. Four of the five headline components subtracted from the index in August, and the one that added, supplier deliveries, is the gauge that rises when deliveries slow.

THE ORDER BOOK GAVE GROUND

New orders fell 3 percentage points to 53.7 in August and the Backlog of Orders Index fell 3.2 points to 51.8, the two largest declines in the report. Both remain in expansion, and both have been in expansion for eight consecutive months, so this is a deceleration, or a narrowing of the breadth of new orders and order backlogs, not a turn. Eleven of 18 industries still reported higher new orders and three reported declines, those being Wood Products, Chemical Products and Food, Beverage & Tobacco Products. Panel sentiment on demand cooled with the index, at a 2-to-1 ratio of positive to negative comments against 3.5-to-1 in July.

The detail behind the index describes a shift to standstill rather than to contraction. ISM's raw responses show the share of panelists reporting higher orders fell to 19.0 percent from 25.6 percent, while the share reporting lower orders rose only to 15.6 percent from 14.2 percent. The difference went into the middle, where 65.4 percent reported no change, the highest share in the four months the release publishes. Order books stopped growing for most of the panel in August without starting to shrink. We suspect that much of the deceleration in the orders series is coming from the slowdown in residential construction, as homebuilders reduce starts to work off a record inventory of completed homes.

The rest of the demand block held up better than the two headline gauges. New export orders rose two tenths to 53.2 for a second month of growth, which is worth noting with tariffs still in force across much of the goods basket and the Middle East conflict still adding to freight costs. Customers' inventories improved to 42.8 from 40.7 and have now been judged too low for 23 consecutive months, a condition that historically precedes restocking. Imports were the exception, falling 3.2 points to 52.5, and the buying-policy detail points the same way. The average commitment lead time for production materials shortened to 84 days from 87 in July, capital expenditure lead times slipped a day to 171, and maintenance and repair supplies shortened to 48 days from 50. Buyers committed less far forward in August than they did in July. The prolonged level of low inventories reflects uncertainty surrounding tariffs, interest rates and geopolitical developments.

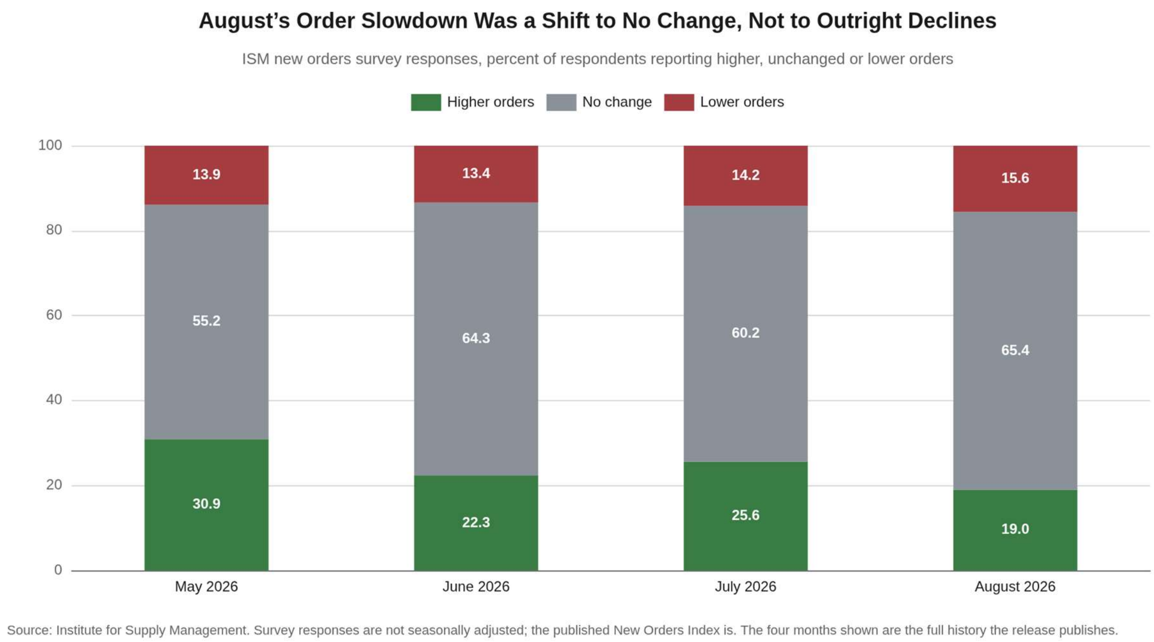

Exhibit 3. Two-thirds of the panel reported no change in new orders in August, the largest middle in the four months ISM publishes, while the share reporting declines rose by only 1.4 points.

HIRING HELD ITS GROUND

The Employment Index fell 1.6 points to 51.2 in August, a second month in expansion after 33 months below 50. Seven industries added workers, three cut them and eight reported no change, and the ratio of panelists hiring to those managing or reducing head counts narrowed to 1.3 to 1 from 1.5 to 1. ISM's guidance is that an Employment Index above 50.3 is generally consistent with rising manufacturing payrolls in the Bureau of Labor Statistics data, so the August reading still points to a gain, if a small one.

The composition of that reading is thinner than the level suggests. In the raw responses, 76.7 percent of panelists reported no change in head counts, the highest share in the four months the release publishes, and the net between those adding and those cutting was three tenths of a point, the narrowest of the four. That is a factory labor market in which employers are neither laying off nor committing to much hiring.

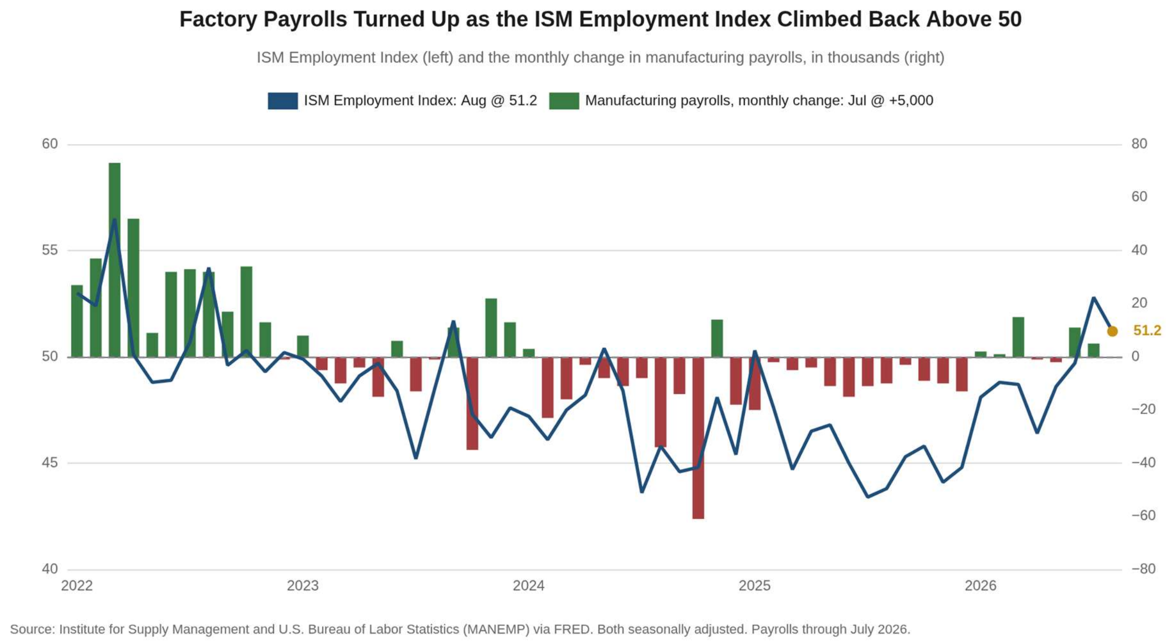

Exhibit 4. The index spent 33 months below 50 while factory payrolls fell in almost every month, and both turned together this year.

The hard data have been catching up to the survey. Manufacturing payrolls added 5,000 jobs in July after 11,000 in June and now stand 31,000 above December's trough, and the shortfall against a year earlier has narrowed to 14,000 from 91,000 in January. Factory output has climbed 2.4 percent since December and 3.7 percent since the start of 2024, while payroll employment remains 2.1 percent below its January 2024 level.

The workweek is still doing work that hiring has not. Average weekly hours in manufacturing reached 41.7 in June and July, the highest readings since June 2019. Six tenths of an hour above December's 41.1 is worth roughly 184,000 workers at December's workweek, against the 31,000 the sector has actually added since then. Employers stretch hours rather than hire when they doubt whether a recovery will last, because hours can be unwound quickly and hires cannot, and the August survey suggests a fair number of them have gone back to doubting.

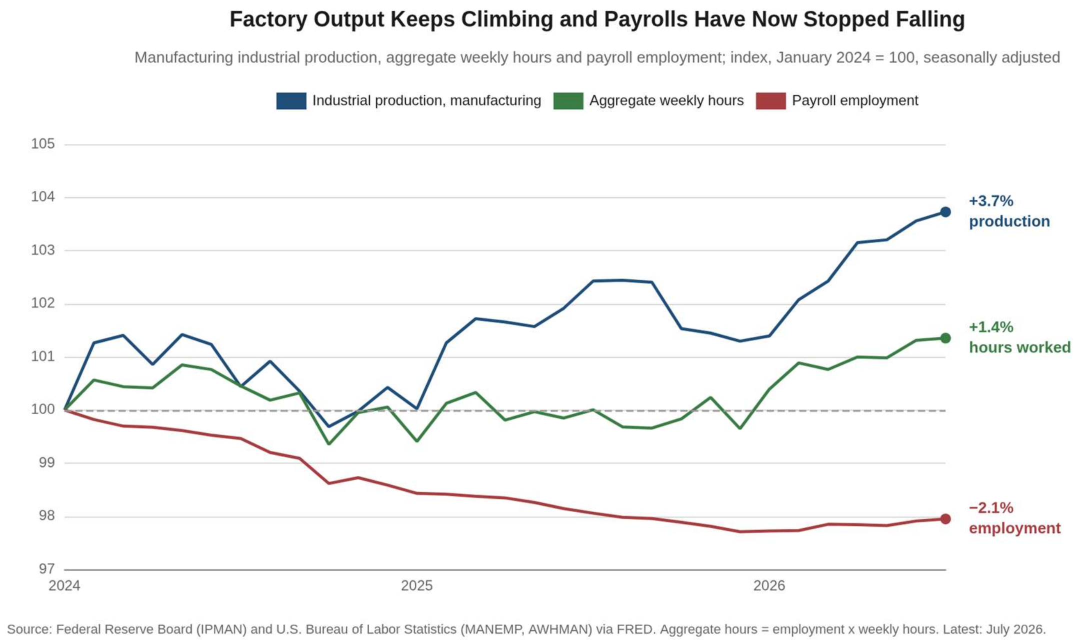

Exhibit 5. Manufacturing payrolls have risen in five of the past seven months after two years of declines, while output and aggregate hours kept climbing throughout.

THE INVESTMENT CYCLE HAS NOT TURNED

Nothing in the August survey suggests the capital spending behind this recovery is slowing. Orders for nondefense capital goods excluding aircraft reached $85.9 billion in July, up 12.9 percent from a year earlier and up 8.4 percent since December alone. Manufacturing labor productivity rose 1.5 percent over the year through the first quarter, the most recent reading available. Since the start of 2024 factory output is up 3.7 percent while aggregate hours are up 1.4 percent and payrolls are down 2.1 percent, which is the signature of a cycle that deepened capital before it added workers.

The panel comments locate that demand precisely, and they locate the strain alongside it. A machinery panelist reported photonics, high-speed connectors, semiconductors and government orders expanding significantly while supply chains grew more difficult at home and abroad. A computer and electronic products panelist described the electronics supply situation as a crisis bigger and more complicated than the one that followed the pandemic, attributing it to AI infrastructure demand and to uncertainty in global oil and critical-supply markets. A miscellaneous manufacturing panelist cited availability and price challenges in commodities heavily consumed by AI. The recovery still has a narrow set of end markets behind it, which is the conditional capital argument we made in our data center work.

Supplier deliveries slowed for a ninth consecutive month, at 59.3, and no industry reported faster deliveries. Slower deliveries usually accompany firming demand, and they can also signal genuine scarcity. With new orders decelerating in the same month, the second reading is doing more of the work than the first. Electronic components have been in short supply for 18 consecutive months, electrical components for 14 and memory for eight, and lengthening lead times turned up in 46 percent of the negative panel comments.

PRICES, TARIFFS AND THE WAR PREMIUM

The Prices Index registered 71.1 in August, the same reading as July, and has now signaled rising input costs for 23 consecutive months. Fifteen of 18 industries reported paying more for raw materials and none reported paying less. Aluminum has been up in price for 33 consecutive months, copper for 14, steel for ten and steel products for nine. Aluminum appeared on both the up and the down lists for a third month, and a primary metals panelist described it as rising again after dropping.

The index held its level because both tails of the distribution thinned at once. The share of respondents paying higher prices fell 4 percentage points to 46.2 percent, its fourth consecutive decline and the lowest of the four months the release publishes. The share paying lower prices fell 4.1 points to 4.0 percent. The two moves offset, leaving the index exactly where July left it, while the middle of the distribution swelled to 49.8 percent from 41.7 percent. Fewer manufacturers are absorbing increases each month, and almost none are winning anything back.

The official price data have started to cooperate in a way the survey has not yet registered. The producer price index for processed goods for intermediate demand, the series ISM's Prices Index maps to, fell 0.4 percent in July after a 0.7 percent decline in June, and its year-over-year rate has slowed to 9.9 percent from 11.3 percent. Two monthly declines do not make a trend, and the level is still nearly ten percent above a year ago, but the survey has held flat for two months while the hard data have kept easing.

Three forces are holding the survey index up, and they are separable. Tariffs on steel and aluminum raise costs through the entire value chain, and they are a policy choice. The Middle East conflict has put a premium on petroleum-based products and freight, and it is a live variable, named in 30 percent of the negative panel comments in August against 43 percent in July. The third is scarcity in the categories the AI buildout is consuming, which will not ease materially until the buildout does.

For the Federal Reserve, a slower expansion at these input costs does not make the case for easing. Growth decelerated in August and it did not stop. Factory output is rising, payrolls have turned, and nearly half the manufacturing panel is still paying more for materials than it did a month earlier. The Committee has spent the year waiting for evidence that the spring energy shock was not turning into a wage-price problem. August did not settle that question in either direction.

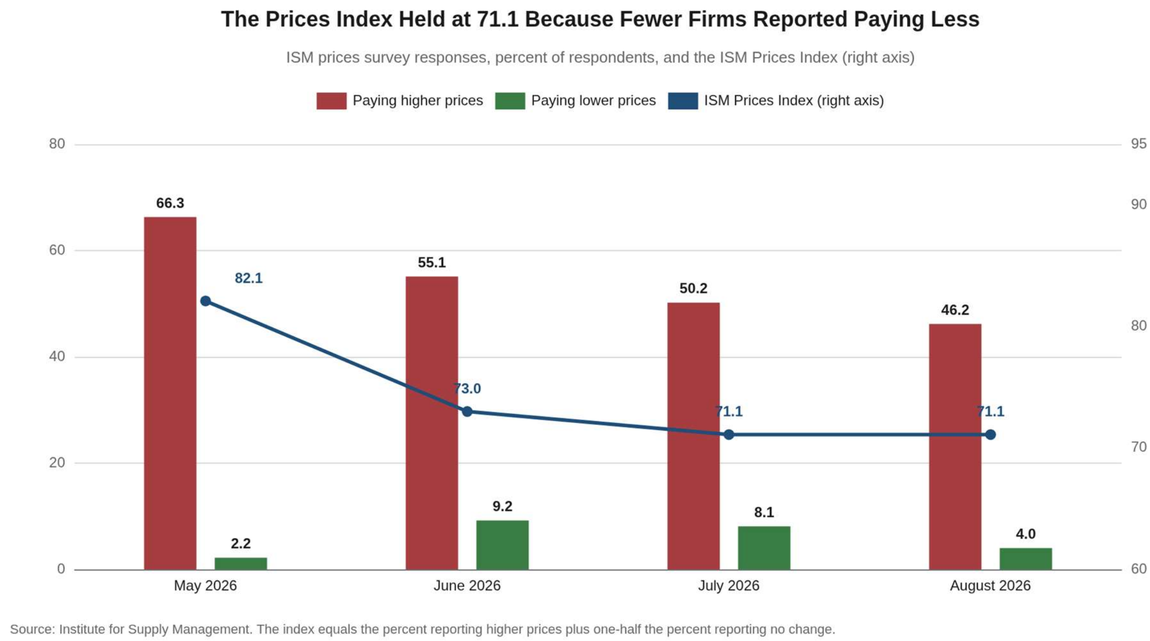

Exhibit 6. The share of manufacturers paying more fell for a fourth month, and the share paying less fell by almost as much, which left the index unchanged.

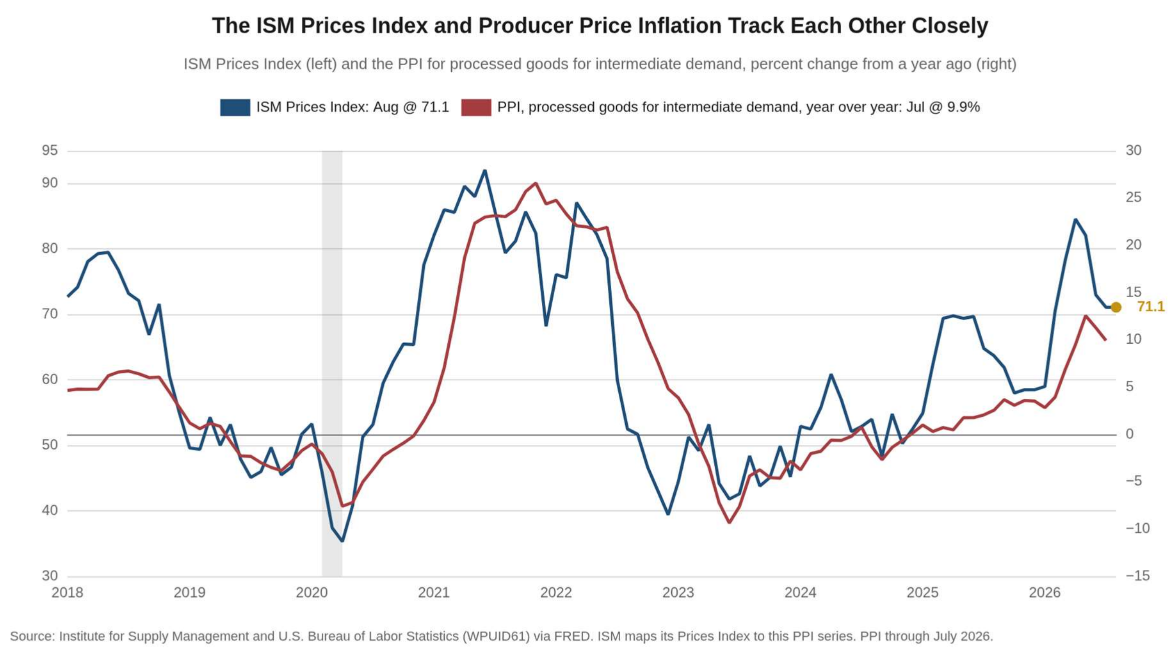

Exhibit 7. The two series have moved together for eight years. Producer price inflation has eased for two months running while the survey index has held at 71.1.

OUR CALL

The recovery is decelerating rather than ending, and the next two order readings will settle which. The chain we have followed all year runs from orders to backlogs to hours to hiring, and August weakened the first two links while the last two were still improving in the July hard data. Hiring responds to orders with a lag of several months, so a softer order book now shows up in payrolls late in the fourth quarter rather than in Friday's report. We look for manufacturing employment to post small gains through the fall and for the Manufacturing PMI to hold in the low 50s.

Composition is doing more work than the headline, in both directions. The count of industries and the GDP weight behind them are telling different stories, and the weight is the one that moves quarterly output. Chemical Products contracted for a second month and 2 percent of the sector was in strong contraction against none in July. The panel comments point the same way, with data centers, semiconductors, aerospace and defense running at capacity while consumer, chemical and general industrial demand lags. This is still a capital goods recovery riding an investment cycle, and it stays vulnerable to anything that interrupts that cycle.

We hold our view that the next move in the funds rate is up, and we now look for it in December. We expect the Committee to hold through the meetings before the November 3 midterm elections and to raise the target range at the December meeting, with one further increase in 2027 to a terminal 4.00 to 4.25 percent. Nothing in the August report changes that. A factory sector growing more slowly is not a factory sector that needs help, and a Prices Index at 71.1 for a second month is not the backdrop for a cut.

Two things would break the call. The first is a wider Middle East conflict that pushes energy and freight costs high enough to stall the demand this report measures, which would turn a deceleration into a contraction and take the December move off the table. The second is a run of order readings like August's. One month of weaker new orders is noise. Three consecutive months would mean the investment cycle behind this recovery has crested, and the fourth quarter would look very different.

Mark P. Vitner – Chief Economist, Piedmont Crescent Capital
mark.vitner@piedmontcrescentcapital.com · (704) 458-4000