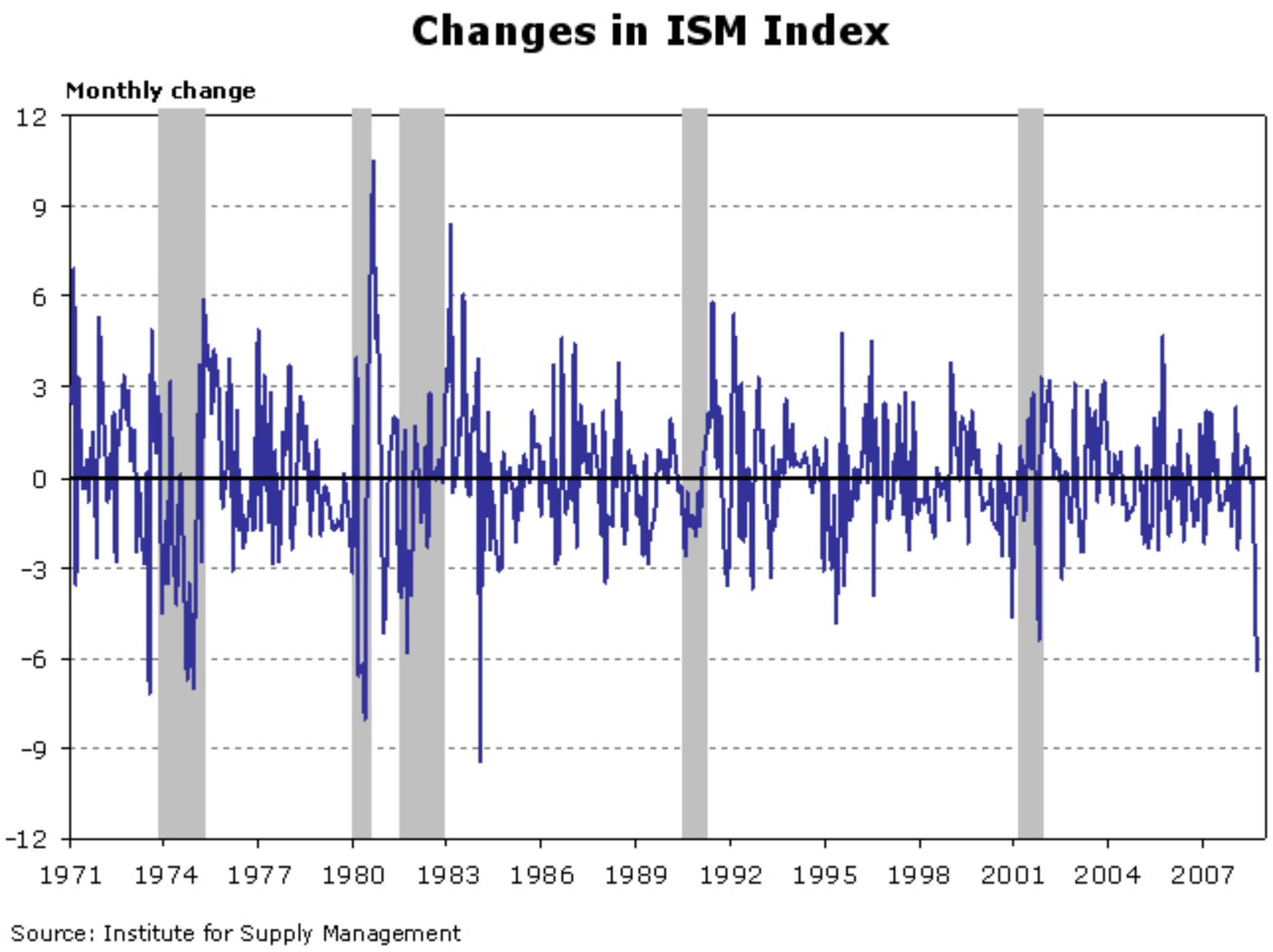
October 2, 2008

The ISM Index breaks the magic number

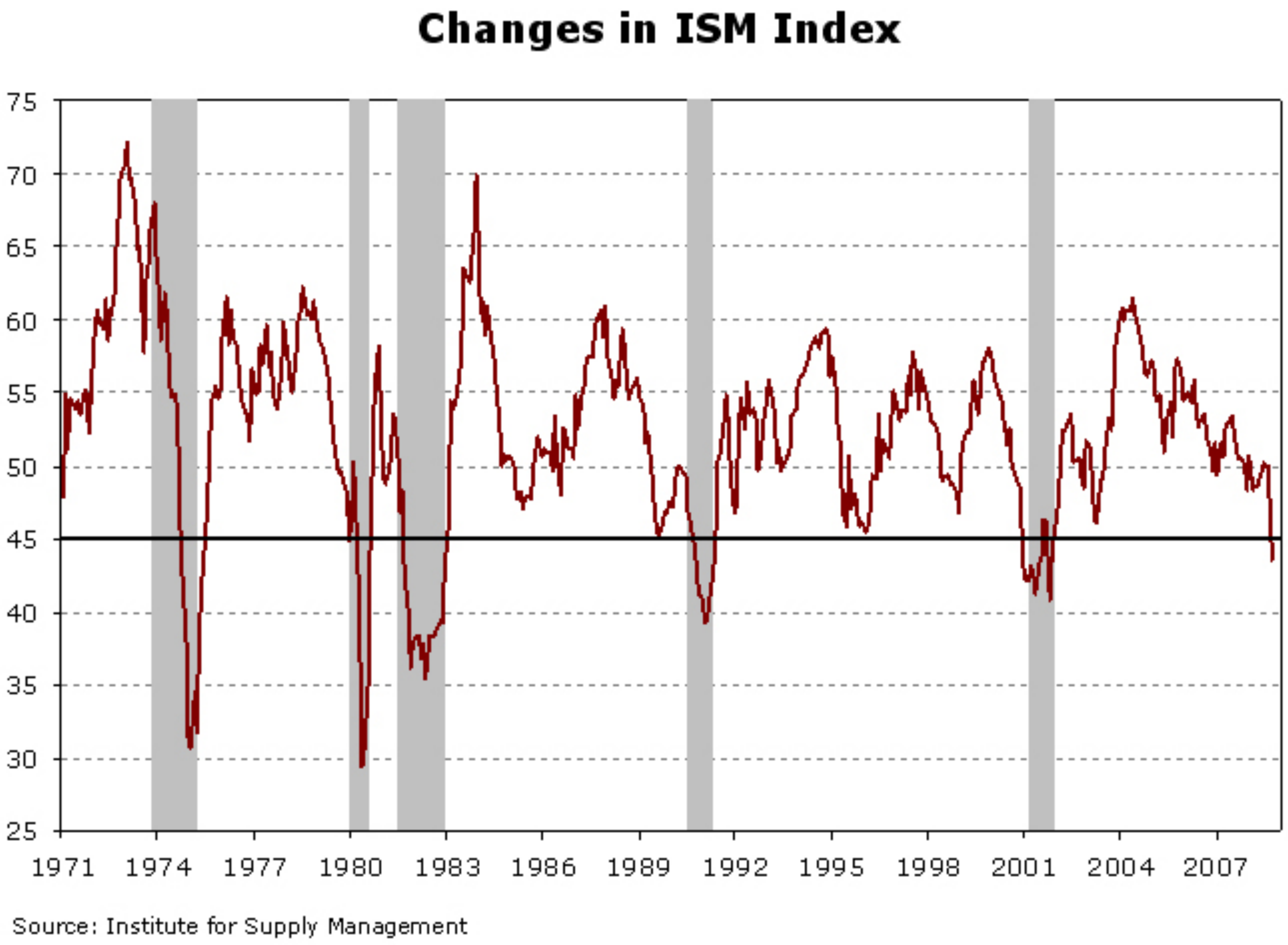
If you are weary of troubling news from the financial sector, the week thus far has provided no relief in the form of good news from the economy's real side. Monday brought troubling signs from the August report on income and consumption, Tuesday more of the same dismal adjustment in house prices, and yesterday an eye-opening ISM manufacturing report that elicited the following sort of headlines (to which I've added the emphasis):

> *Stunning Decline* in Manufacturing Sector (Mark Thoma, channeling Real Time Economics)
>
> ISM manufacturing index *plunges* (Calculated Risk)
>
> ISM *Implodes…* (Mike Shedlock)

No doubt about it, a 6.4 index-point drop in one month gets people's attention. How unusual is that large a change in the index? Pretty unusual:



Even so, the more important part of the story may be the *level* to which the index fell:



The index now stands at 43.5. Over the past 30 years, index levels below 45 have not failed to be associated with a recession, either contemporaneously or with a short lag. Throw that and the other indicators of the week in with the most recent “freefall” in auto sales, and it’s enough to make some smart guys despair.

October 2, 2008 in Data Releases, Economic Growth and Development, Labor Markets | Permalink