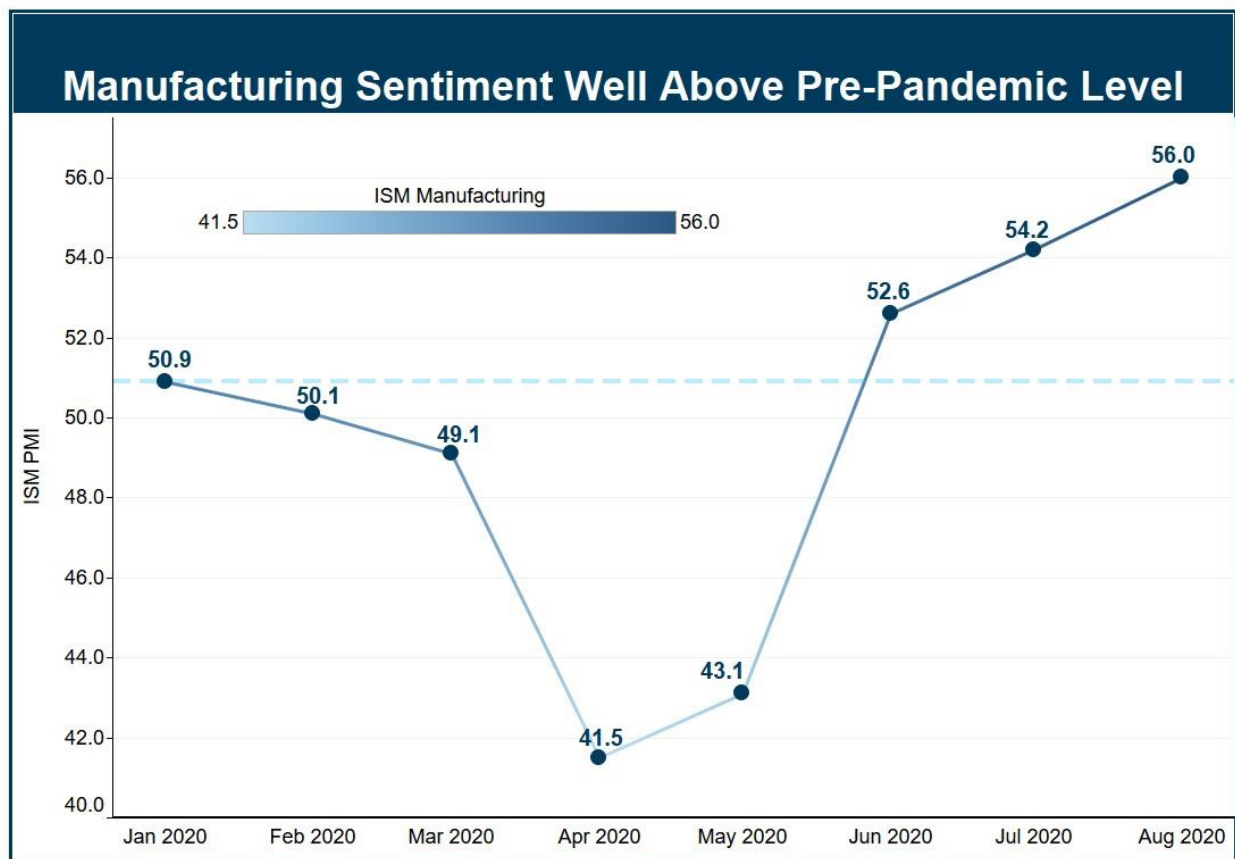


Manufacturing, Services, and Small Business Data Points to “K-Shaped” Recovery

The on-going economic recovery is taking on a “K-shape” because some businesses are doing well while others continue to struggle as the pandemic persists. The ones doing well are the top of the “K” and the ones struggling are at the bottom. Recent economic data bears this out.

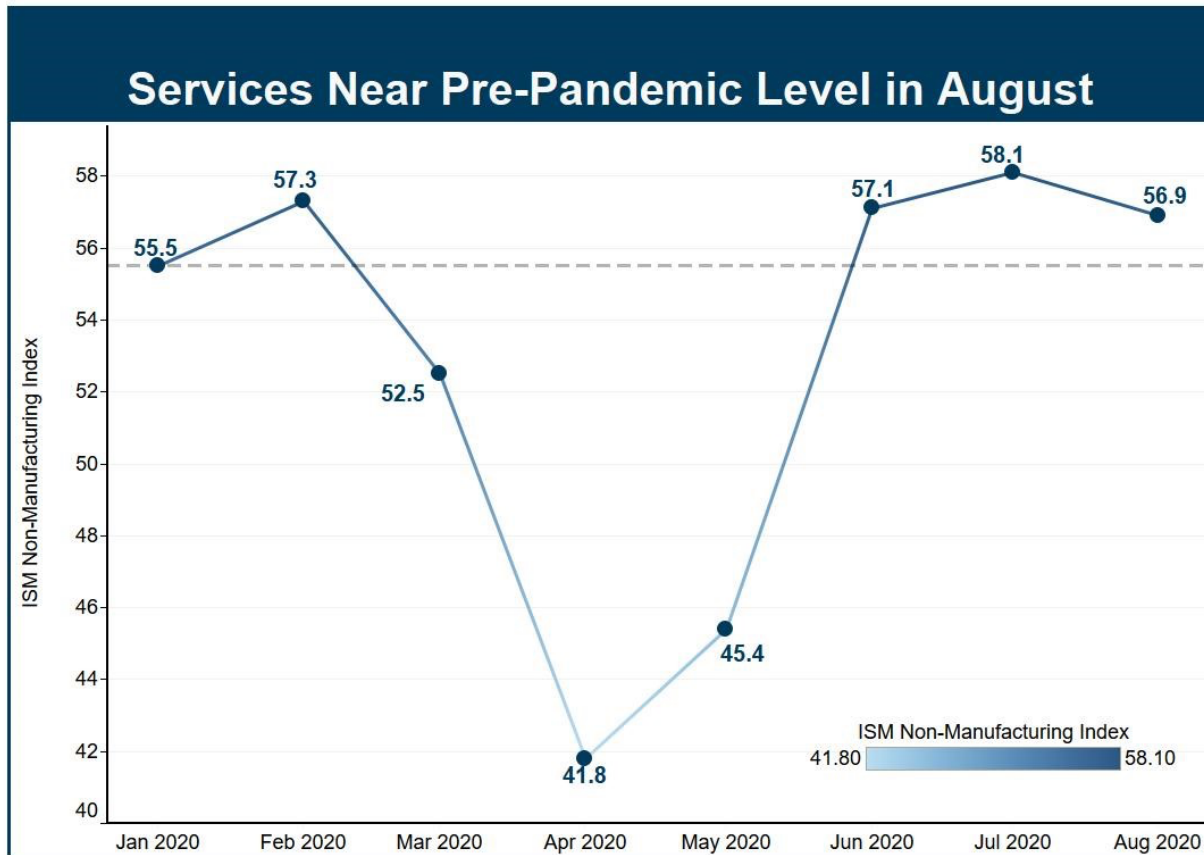
Manufacturing: The manufacturing sector is recovering rapidly. In August, the [Institute for Supply Management’s \(ISM\) Purchasing Manager’s Index](#), which surveys manufacturing activity, rose to 56, its highest level since November 2018. It is now significantly higher than it was before the pandemic.



Manufacturing is doing well because businesses are clearing order backlogs that developed during the Great Pause and they can operate as close to normal as possible given the circumstances.

Prior to the Great Pause, manufacturing was in a slump. Businesses overall were doing well, but only because the services sector was humming. The virus has caused a reversal of fortunes. Services are now suffering, although not all equally.

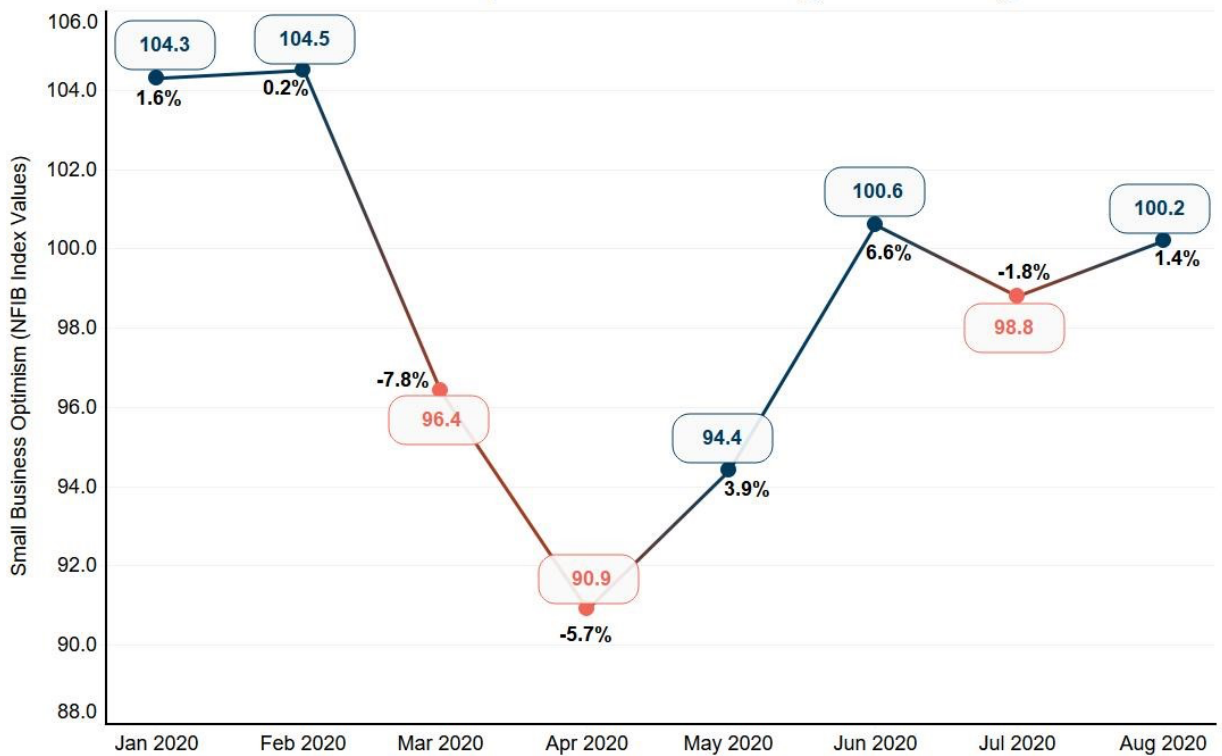
Services: ISM also does a [survey of services businesses](#). For August, it fell from where it was in July when it exceeded pre-pandemic levels. It now sits below where it was in June. It has rebounded from lows hit during the pandemic but is below where it was when the pandemic struck.



It makes sense for service to be lagging manufacturing and for it to be near, but below, its pre-pandemic level. While services in general are on the bottom of the “K,” there is a split among them: Services like entertainment, food, hospitality, and transportation are struggling to regain their footing, while services like real estate, rental and leasing, and health care are surging back.

Small business: Small businesses consist of manufacturing and services. In August, the [National Federation of Independent Businesses \(NFIB\)](#), which surveys small business optimism each month, rose after a small drop in July.

Small Business Optimism Rose Again in August



Small businesses are significantly more optimistic than they were in April and May, but less optimistic than they were before the virus struck. This is consistent with some businesses recovering while others are still struggling.

Our take: This data reiterates that the virus shapes the nation's economic recovery. If businesses in the service sector cannot operate at full capacity, the service industry overall cannot fully recover. As Congress returns to Washington, it needs to recognize this in considering further relief legislation.

—Curtis Dubay, Senior Economist, U.S. Chamber of Commerce