

September ISM Manufacturing Index

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The ISM manufacturing index increased to 56.2 in September from 55.7 in August, easily beating the consensus expected 55.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mainly higher in September and all remain above 50. The supplier deliveries index increased to 52.6 from 52.3, while the production index increased to 62.6 from 62.4. The employment index rose to 55.4 from 53.3. The new orders index declined to 60.5 from 63.2 in August.
- The prices paid index rose to 56.5 in September from 54.0 in August.

Implications: While Washington offers us more drama, the private sector keeps moving forward. Despite supposed fears about a government shutdown, a very strong report today for the ISM index, a measure of manufacturing sentiment around the country. The ISM came in at the highest level since April 2011, easily beating consensus expectations. According to the Institute for Supply Management, an overall index level of 56.2 is consistent with real GDP growth of 4.4% annually. We don't expect real GDP will grow anywhere near that pace in Q3, probably more like a 1.5% rate instead, but we do expect that by late this year growth will pick up noticeably from the roughly 2% trend over the past few years. Although the new orders index declined to 60.5 for September, it remains near its highest levels since early 2011. The employment index rose to 55.4 and is consistent with the plow horse improvement we have been getting out of the labor market over the past few years. This is in line with our current forecast that nonfarm payrolls increased around 200,000 in September. The Employment report is due to come out this Friday, but because of the government shutdown, it will be delayed. The same goes for the construction report that was supposed to be out this morning. On the inflation front, the prices paid index rose to 56.5 in September from 54.0 in August. Still, little sign of inflation, but we don't expect this to last given loose monetary policy.

ISM Mfg: PMI Composite Index
 SA, 50+ = Econ Expand



ISM Mfg: Production Index
 SA, 50+ = Econ Expand

ISM Mfg: New Orders Index
 SA, 50+ = Econ Expand



Institute for Supply Management Index	Sep-13	Aug-13	Jul-13	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	56.2	55.7	55.4	55.8	53.0	51.6
New Orders	60.5	63.2	58.3	60.7	55.8	51.7
Production	62.6	62.4	65.0	63.3	57.6	51.4
Inventories	50.0	47.5	47.0	48.2	48.4	50.5
Employment	55.4	53.3	54.4	54.4	52.0	53.7
Supplier Deliveries	52.6	52.3	52.1	52.3	51.1	50.5
Order Backlog (NSA)	49.5	46.5	45.0	47.0	48.1	44.0
Prices Paid (NSA)	56.5	54.0	49.0	53.2	51.9	58.0
New Export Orders	52.0	55.5	53.5	53.7	53.4	48.5

Source: National Association of Purchasing Management