

October ISM Manufacturing Index

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- The ISM manufacturing index surged to 59.0 in October from 56.6 in September, easily beating the consensus expected level of 56.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- Most major measures increased in October, and all remain above 50, signaling growth. The new orders index increased to 65.8 from 60.0, while the employment index moved to 55.5 from 54.6. The supplier deliveries index jumped to 56.2 from 52.2. The production index increased slightly to 64.8 from 64.6 in September.
- The prices paid index fell to 53.5 in October from 59.5 in September.

Implications: After stumbling in September, the growth rate at US factories rebounded sharply in October. The ISM Manufacturing index, which measures factory sentiment around the country, easily beat the consensus expected 56.0, returning to a very robust 59.0. In fact, at 59.0, the index came in higher than the forecast from every single economic group that made a projection and tied the level in August, which was the highest since February 2011. The best piece of news this morning was the new orders index increasing to 65.8, which points to continuing increases in manufacturing activity in the year ahead. According to the Institute for Supply Management, an overall index level of 59.0 is consistent with real GDP growth of 5.2% annually. However, the ISM report has tended to overestimate real GDP growth in the past several years. As a result, we think we're seeing an acceleration in the underlying trend in real GDP growth, but more like 2.5% to 3% rather than 5.2%. On the inflation front, the prices paid index fell to 53.5 in October from 59.5 in September, which is consistent with the gradual rise in inflation we anticipate in the year ahead. In other news this morning, construction declined 0.4% in September (-1.0% including downward revisions for prior months), falling short of the consensus expected gain of 0.7%. The decline in September was primarily due to less street paving by local governments as well as a drop in power plant construction. The largest gain was for single-family home building. Despite the decline in overall construction in October, we expect a rebound in the months ahead.

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	Oct-14	Sep-14	Aug-14	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	59.0	56.6	59.0	58.2	57.1	56.6
<i>New Orders</i>	65.8	60.0	66.7	64.2	62.0	61.3
<i>Production</i>	64.8	64.6	64.5	64.6	62.7	60.8
<i>Inventories</i>	52.5	51.5	52.0	52.0	51.8	52.5
<i>Employment</i>	55.5	54.6	58.1	56.1	55.3	54.3
<i>Supplier Deliveries</i>	56.2	52.2	53.9	54.1	53.6	54.1
<i>Order Backlog (NSA)</i>	53.0	47.0	52.5	50.8	50.4	51.5
<i>Prices Paid (NSA)</i>	53.5	59.5	58.0	57.0	58.1	55.5
<i>New Export Orders</i>	51.5	53.5	55.0	53.3	54.0	57.0

Source: National Association of Purchasing Management

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