

October ISM Manufacturing Index

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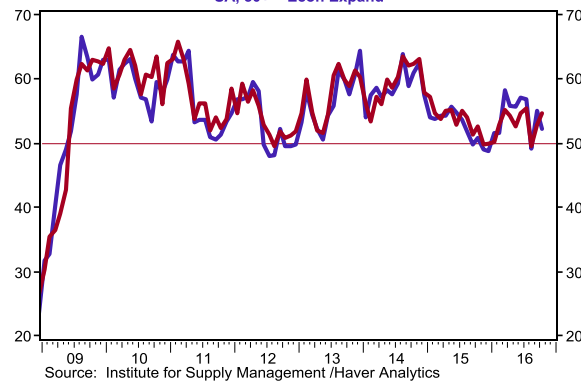
- The ISM manufacturing index rose to 51.9 in October, beating the consensus expected level of 51.7. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in October, and all now stand above 50, signaling growth. The employment index rose to 52.9 from 49.7 in September, while the supplier deliveries index increased to 52.2 from 50.3. The production index moved higher to 54.6 from 52.8, while the new orders index declined to 52.1 from 55.1 in September.
- The prices paid index increased to 54.5 from 53.0 in September.

Implications: Modest but steady growth from the manufacturing sector in October, as the ISM manufacturing index rose for a second consecutive month following August's surprise decline. While not booming, the October reading beats the average level of 51.0 for the first ten months of 2016. The largest improvement in October came in employment, where eleven of eighteen industries indicated growth. This is welcome news as survey participants have reported declines in employment for every other month in 2016, save June. The two most forward looking measures – new orders and production – continued to show expansion in October, with production picking up the pace while new orders continue to grow, but at a slower pace than in September. Some may point to the muted readings from the ISM manufacturing index and declines in manufacturing payrolls as signs the economy is teetering on the edge of a recession, and while the manufacturing sector has consistently lagged the larger service sector throughout the recovery, cries of a collapse are seriously overdone. Given continued gains in total employment, rising wages, and healthy consumer spending, we expect both the ISM manufacturing and service sector indexes to continue to show expansion in the coming months. On the inflation front, the prices paid index rose to 54.5 in October, signaling a continued rise in prices. Taken as a whole, the top concerns for the Fed – employment and inflation – trended higher in October, while general activity in the manufacturing sector continues to plod forward at a Plow Horse pace. In other news today, construction spending declined 0.4% in September but July and August data were revised higher. With upward revisions to both home building and commercial construction, it now looks like real GDP grew at a 3.0% annual rate in Q3, versus the 2.9% report last Friday. The decline in September construction itself was led by power plants, manufacturing facilities, warehouses, and sewage and waste disposal systems. Home building rose, led by new apartments and home improvements.

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 <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i> | Oct-16 | Sep-16 | Aug-16 | 3-month moving avg | 6-month moving avg | Year-ago level |
|--|---------------|---------------|---------------|-------------------------------|-------------------------------|---------------------------|
| Business Barometer | 51.9 | 51.5 | 49.4 | 50.9 | 51.7 | 49.4 |
| New Orders | 52.1 | 55.1 | 49.1 | 52.1 | 54.3 | 50.8 |
| Production | 54.6 | 52.8 | 49.6 | 52.3 | 53.3 | 52.5 |
| Inventories | 47.5 | 49.5 | 49.0 | 48.7 | 48.2 | 46.5 |
| Employment | 52.9 | 49.7 | 48.3 | 50.3 | 50.0 | 47.7 |
| Supplier Deliveries | 52.2 | 50.3 | 50.9 | 51.1 | 52.5 | 49.7 |
| Order Backlog (NSA) | 45.5 | 49.5 | 45.5 | 46.8 | 48.0 | 42.5 |
| Prices Paid (NSA) | 54.5 | 53.0 | 53.0 | 53.5 | 56.6 | 39.0 |
| New Export Orders | 52.5 | 52.0 | 52.5 | 52.3 | 52.6 | 47.5 |

Source: National Association of Purchasing Management