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September ISM Manufacturing Index

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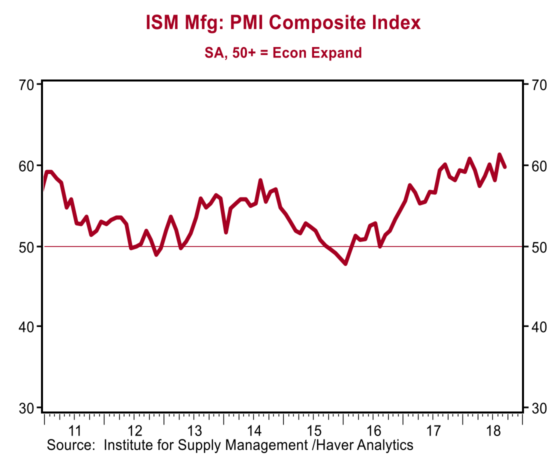
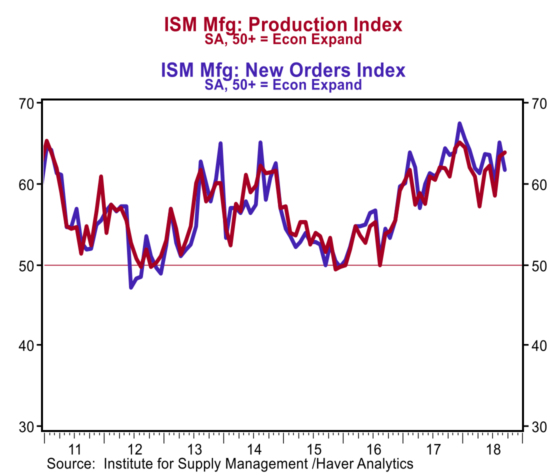
- The ISM Manufacturing Index declined to 59.8 in September, coming in slightly below the consensus expected 60.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were mixed in September, but all stand comfortably above 50, signaling growth. The supplier deliveries index declined to 61.1 from 64.5 in August, while the new orders index fell to 61.8 from 65.1. The production index increased to 63.9 from 63.3, and the employment index improved to 58.8 from 58.5 in August.

- The prices paid index declined to 66.9 in September from 72.1 in August.





Implications: The ISM Manufacturing index continues to run strong, falling modestly from last month's 14-year high reading. And beyond the solid headline reading, growth remains broad-based, with fifteen of eighteen industries reporting expansion (only primary metals reported contraction). The best news in today's report was that the two most forward-looking indices – new orders and production – continue to lead with readings above 60. That said, the strength in orders isn't new, with the new orders index having now shown a reading of 60+ for seventeen consecutive months, the longest stretch above 60 going all the way back the early 1970s. Some survey respondents continue to report uncertainty related to trade tariffs, but that issue has yet to show much negative impact on activity to-date. Hopefully, today's announcement of a trade agreement with Mexico and Canada will reduce those concerns. Meanwhile, the customer inventories sub-index (which measures if inventory levels are appropriate for the current environment) declined to 40.5 in September, remaining near the lowest level going back to late 2010. Also, delivery times continue to rise (though at slower pace than in August). In other words, all the stresses in the manufacturing sector point to even more investment, hiring, and production in the coming months. In the meantime, expect higher prices. Although the prices paid index moved down to 66.9 in September from 72.1 in August, a reading well above 50 signals continued inflation, as fourteen commodities showed higher prices and just four declined. With inflation already above the Fed's 2% target, today's data should serve as yet another signal the Fed could strengthen language and the "dot plot" in November and December to signal higher odds of rate hikes in 2019. On the jobs front, the employment index rose to 58.8 in September from 58.5 in August. And survey respondents continue to report that employment would be higher but for difficulties in finding qualified workers to fill positions. Despite the pickup in the ISM employment reading, we expect this Friday's report will show nonfarm payrolls grew by about 150,000, a slower pace than August's surprise to the upside, due to temporary effects from Hurricane Florence. In other news this morning, construction spending rose 0.1% in August (+0.2% including revisions to prior months). Construction spending is up 6.5% in the past year, an acceleration from the pace over the same periods ending in 2016 and 2017. In other words, both the construction and manufacturing sectors are contributing to the Kevlar Economy, and strengthen our belief that predictions of a looming recession are simply wrong.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	**Sep-18**	**Aug-18**	**Jul-18**	**3-month** ***moving avg***	**6-month** ***moving avg***	**Year-ago** ***level***
Business Barometer	**59.8**	61.3	58.1	59.7	59.2	60.2
New Orders	**61.8**	65.1	60.2	62.4	62.6	64.4
Production	**63.9**	63.3	58.5	61.9	61.1	61.9
Inventories	**53.3**	55.4	53.3	54.0	52.7	52.6
Employment	**58.8**	58.5	56.5	57.9	56.7	58.7
Supplier Deliveries	**61.1**	64.5	62.1	62.6	63.2	63.4
Order Backlog *(NSA)*	**55.7**	57.5	54.7	56.0	58.9	56.9
Prices Paid *(NSA)*	**66.9**	72.1	73.2	70.7	74.6	71.5
New Export Orders	**56.0**	55.2	55.3	55.5	56.0	56.2

Source: National Association of Purchasing Management