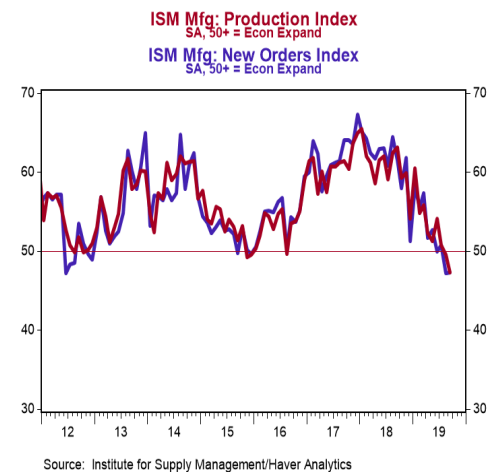
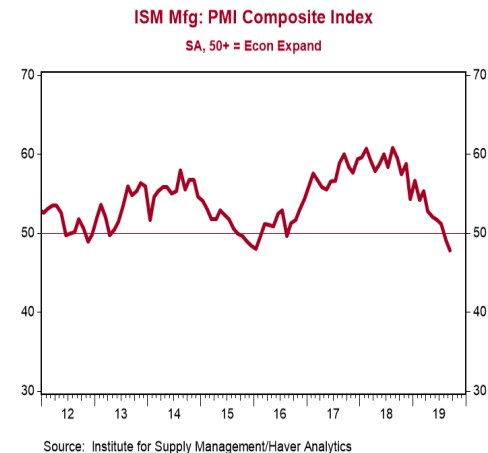


# September ISM Manufacturing Index

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- The ISM Manufacturing Index declined to 47.8 in September, lagging the consensus expected 50.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in September. The production index fell to 47.3 from 49.5 in August, while the new employment index declined to 46.3 from 47.4. The supplier deliveries index moved lower to 51.1 from 51.4. The new orders index rose to 47.3 from 47.2 in August.
- The prices paid index increased to 49.7 in September from 46.0 in August.

**Implications:** An ugly report once again from the manufacturing sector, as negative trade-related sentiment helped push the ISM manufacturing index to the lowest reading in ten years. That said, there are a few things to remember when evaluating today’s report. First, the ISM report is a survey, and can be impacted by sentiment (China trade concerns) as much as actual activity. Second, we have seen the index dip below 50 earlier in this recovery, without derailing the expansion. In 2012, the index fell below 50 on three occasions, once again in 2013, and 2015/16 saw the index fall into the 40s for five consecutive months. Each time, the economy kept growing. Keep that in mind when you see headlines stating this is a sign of looming recession. Fifteen of eighteen industries reported contraction in September, while three reported growth. The two most forward-looking indices - new orders and production - both remain below 50, signaling a slowdown in activity. Despite the weakness, we expect a return to growth in the months ahead. Why? The ISM data doesn’t match what we are seeing from other reports. The latest report on personal consumption shows goods consumption is up at a 8.7% annualized rate so far in 2019, the fastest pace to start a year since 2009! So if consumers are clearly buying, and companies are apparently (according to today’s report) not producing, something has got to give. Given that we are also not seeing a pickup in layoffs – something you would expect to see if business significantly slowed - we lean towards the hard data over the survey output when it comes to judging the health of the economy. The hard data is also why, despite the employment index declining to 46.3 from 47.4 in August, we are forecasting that nonfarm payrolls rose a respectable 120,000 in September. Finally, on the inflation front, the prices paid index rose to 49.7 in September, held below 50 primarily due to metals (namely steel and aluminum). Here the data match reports from other sources. Stagnant prices for goods continue to partially offset faster price growth for services, resulting in overall producer prices hovering right around the Fed’s 2% inflation target. Taken as a whole, the sum of the data continues to point towards growth, regardless of how fearful survey respondents get. In other news this morning, construction spending rose 0.1% in August (-0.1% including revisions to prior months), lagging the consensus expected rise of 0.5%. A pickup in home building was largely offset by a slowdown in commercial construction and power projects.



Institute for Supply Management Index	Sep-19	Aug-19	Jul-19	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
<b>Business Barometer</b>	<b>47.8</b>	49.1	51.2	49.4	50.8	59.5
<b>New Orders</b>	<b>47.3</b>	47.2	50.8	48.4	50.0	61.5
<b>Production</b>	<b>47.3</b>	49.5	50.8	49.2	50.9	63.1
<b>Inventories</b>	<b>46.9</b>	49.9	49.5	48.8	49.9	53.3
<b>Employment</b>	<b>46.3</b>	47.4	51.7	48.5	51.0	58.2
<b>Supplier Deliveries</b>	<b>51.1</b>	51.4	53.3	51.9	52.2	61.6
<b>Order Backlog (NSA)</b>	<b>45.1</b>	46.3	43.1	44.8	47.2	55.7
<b>Prices Paid (NSA)</b>	<b>49.7</b>	46.0	45.1	46.9	48.7	66.9
<b>New Export Orders</b>	<b>41.0</b>	43.3	48.1	44.1	47.2	56.0

Source: National Association of Purchasing Management