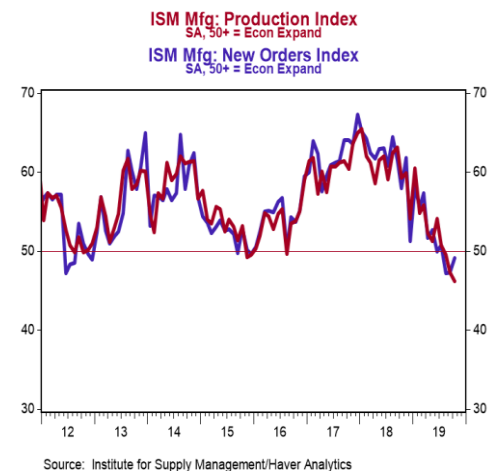
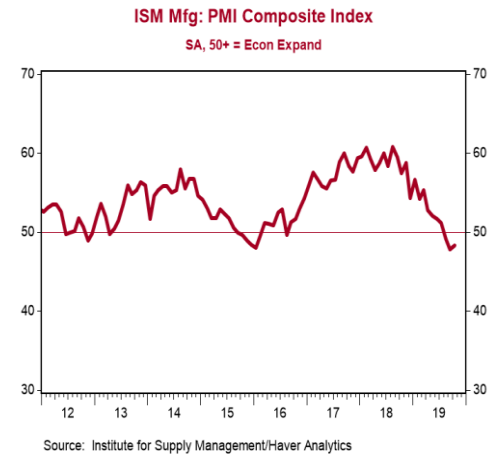


# October ISM Manufacturing Index

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- The ISM Manufacturing Index rose to 48.3 in October, lagging the consensus expected 48.9. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in October. The new orders index rose to 49.1 from 47.3 in September, while the employment index increased to 47.7 from 46.3. The supplier deliveries index fell to 49.5 from 51.1, and the production index declined to 46.2 from 47.3 in September.
- The prices paid index declined to 45.5 in October from 49.7 in September.

**Implications:** Manufacturing activity continued to slow in October, according to the Institute for Supply Management (ISM) survey, though the outlook improved modestly from September. We believe that, because the ISM index is calculated through a survey of purchasing managers who may or may not be swayed by sentiment, and who may or may not have access to actual numbers on every individual portion of the index...it should be considered soft data. The index has dipped below 50 earlier in this recovery, without signaling recession – on three occasions in 2012, once again in 2013, and for five consecutive months in 2015/16. Each time, the economy kept growing. Think about this when you see headlines that overstate the importance of today’s report. Twelve of eighteen industries reported contraction in October, while five reported growth. The two most forward-looking indices - new orders and production – moved in opposite directions, but both remain below 50 signaling a slowdown in activity. The new orders index rose to 49.1 from 47.3 in September, while the production index declined to 46.2 from 47.3. 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 up at a 7.4% annualized rate so far in 2019, the fastest pace through September for any year since 1999! 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 employment index rose to 47.7 from 46.3 in September, which may initially sound like it is in-line with the 36,000 jobs decline seen for the manufacturing sector in today’s employment report. That said, the October data was impacted by the GM strike that resulted in 46,000 employees out of work for the month. Add those back in, and manufacturing employment would have risen in October. Finally, on the inflation front, the prices paid index declined to 45.5 in October, pushed lower due primarily to metals (namely steel and aluminum). 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 0.5% in September, beating the consensus expected rise of 0.2%. A pickup in home building and public construction of highways and streets were partially offset by a slowdown in private power projects.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Oct-19	Sep-19	Aug-19	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Business Barometer</b>	<b>48.3</b>	47.8	49.1	48.4	50.0	57.5
<b>New Orders</b>	<b>49.1</b>	47.3	47.2	47.9	49.5	58.0
<b>Production</b>	<b>46.2</b>	47.3	49.5	47.7	49.9	59.3
<b>Inventories</b>	<b>48.9</b>	46.9	49.9	48.6	49.2	50.7
<b>Employment</b>	<b>47.7</b>	46.3	47.4	47.1	50.2	56.5
<b>Supplier Deliveries</b>	<b>49.5</b>	51.1	51.4	50.7	51.3	63.2
<b>Order Backlog (NSA)</b>	<b>44.1</b>	45.1	46.3	45.2	45.5	55.8
<b>Prices Paid (NSA)</b>	<b>45.5</b>	49.7	46.0	47.1	47.9	71.6
<b>New Export Orders</b>	<b>50.4</b>	41.0	43.3	44.9	47.4	52.2

Source: National Association of Purchasing Management