

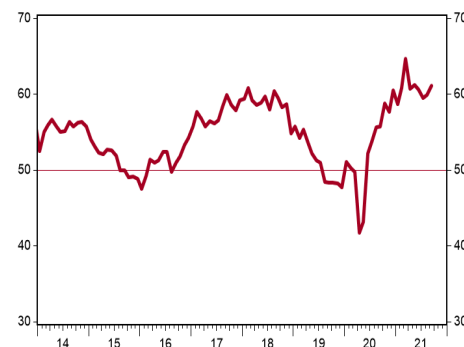
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September ISM Manufacturing Index

- The ISM Manufacturing Index rose to 61.1 in September, beating the consensus expected 59.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in September, but all above 50, signaling growth. The production index fell to 59.4 from 60.0 in August, while the new orders index remained unchanged at 66.7. The employment index rose to 50.2 from 40.9, and the supplier deliveries index rose to 73.4 from 69.5 in August.
- The prices paid index rose to 81.2 in September from 79.4 in August.

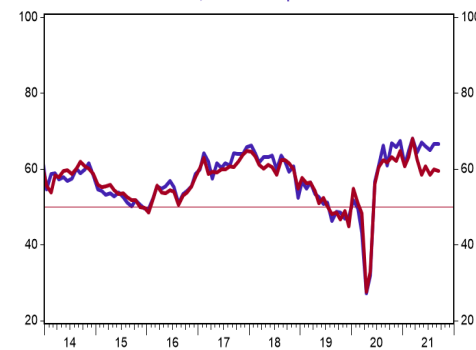
Implications: The manufacturing sector continued to expand in August, and at a faster pace than expected. Gains were broad-based, with seventeen of eighteen industries reporting growth. While the new orders and production indices both remain at historically elevated levels, it's clear that the factory sector would be expanding even more rapidly if it weren't for a slew of factors holding back output. Respondent comments in September were dominated by widespread worries about rapidly rising costs for inputs and transportation (especially ocean freight), shortages of raw materials across the board, and employers having trouble filling open positions. These issues have all come together to keep manufacturing activity from rising quickly enough to meet the explosion of demand as the US economy reopens. This was most evident in the supplier deliveries index, which broke a recent string of declines to post the highest reading since June, signaling longer wait times. Overall, seventeen of eighteen industries reported waiting longer for their inputs. This in turn has resulted in long lead times for the customers of US factories as well, who continued to see their inventories shrink rapidly in September as retailers continued to rely on the goods they already had in warehouses. Keep in mind, businesses will eventually restock their shelves, which will be a big source of future demand for manufactured goods as well as a tailwind for GDP growth. One piece of good news in today's report was that the employment index moved back into expansion territory in September. However, staffing troubles remain a persistent issue when it comes to ramping up production. Manufacturing is one of the worst hit sectors in the ongoing labor shortage, with job openings twice what they were pre-pandemic. One survey respondent even noted that: "We used to have 100 applicants for an opening; we are now seeing about 10 — and often, the applicant does not show for the interview." With overly generous federal pandemic unemployment benefits officially coming to an end in September, look for the labor shortage to begin to abate in coming months. Finally, price growth for inputs began to accelerate again in September, with the prices index rising to 81.2. Seventeen of eighteen industries reported increased prices for raw materials. Looking at the details, only three commodities (lumber, wood, and steel scrap) were reported lower in price while forty-three were reported up. In other news this morning, construction spending was unchanged in August while prior months were revised up. Gains in home building and road construction in August were offset by declines in power plants and manufacturing projects.

ISM Mfg: PMI Composite Index
 SA, 50+ = Econ Expand



Source: Institute for Supply Management/Haver Analytics

ISM Mfg: Production Index
 SA, 50+ = Econ Expand
 ISM Mfg: New Orders Index
 SA, 50+ = Econ Expand



Source: Institute for Supply Management/Haver Analytics

Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Sep-21	Aug-21	Jul-21	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	61.1	59.9	59.5	60.2	60.5	55.7
New Orders	66.7	66.7	64.9	66.1	65.9	60.9
Production	59.4	60.0	58.4	59.3	59.9	61.7
Inventories	55.6	54.2	48.9	52.9	51.2	47.7
Employment	50.2	49.0	52.9	50.7	51.3	49.3
Supplier Deliveries	73.4	69.5	72.5	71.8	74.1	59.0
Order Backlog (NSA)	64.8	68.2	65.0	66.0	66.9	55.2
Prices Paid (NSA)	81.2	79.4	85.7	82.1	86.0	62.8
New Export Orders	53.4	56.6	55.7	55.2	55.4	54.3

Source: National Association of Purchasing Management