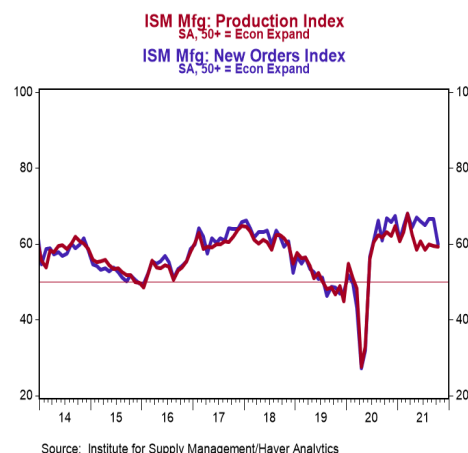
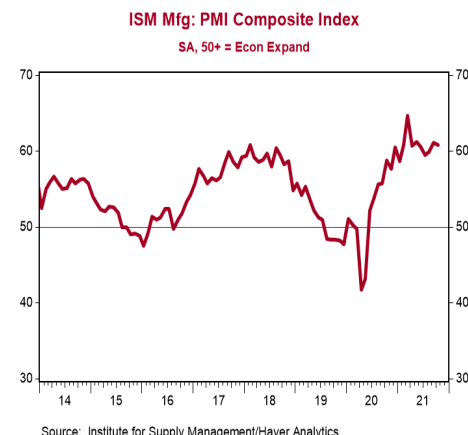


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October ISM Manufacturing Index

- The ISM Manufacturing Index declined to 60.8 in October, but beat the consensus expected 60.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in October, but all above 50, signaling growth. The production index fell to 59.3 from 59.4 in September, while the new orders index declined to 59.8 from 66.7. The employment index rose to 52.0 from 50.2, and the supplier deliveries index rose to 75.6 from 73.4 in September.
- The prices paid index rose to 85.7 in October from 81.2 in September.

Implications: The manufacturing sector continued to expand in October, though at a slightly slower pace. Gains were broad-based, with sixteen of eighteen industries reporting growth. While the new orders and production indices both remain at historically elevated levels, it's clear the factory sector would be expanding even more rapidly if it weren't for a slew of unusual factors holding back output. Respondent comments in October continued to be dominated by widespread worries about rapidly rising costs for inputs and 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 rose for the second month in a row (signaling longer wait times) and now sits just below May's reading, which was the highest since 1979. All eighteen industries reported waiting longer for inputs. This, in turn, has resulted in long lead times for the clients of US factories, who continued to see their inventories shrink rapidly in October 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 further into expansion territory in October. 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. Notably, the recent recovery in the employment index has coincided with the end of generous federal pandemic unemployment benefits which expired in September. With less disincentive effects in the labor market, we expect the shortage of workers to continue to abate in coming months. Finally, price growth for inputs continued to accelerate again in October, with the price index rising to 85.7. All eighteen industries reported increased prices for raw materials. Looking at the details, only one commodity (wood) was reported lower in price while forty-eight were reported up. In other news this morning, construction spending fell 0.5% in September. The declines were broad-based with big drops in home building, manufacturing, and power projects more than offsetting small gains in educational facilities. Look for a rebound in October as the pace of construction in September was likely affected by Hurricane Ida.



| Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i> | Oct-21 | Sep-21 | Aug-21 | 3-month moving avg | 6-month moving avg | Year-ago level |
|---|-------------|--------|--------|-----------------------|-----------------------|-------------------|
| Business Barometer | 60.8 | 61.1 | 59.9 | 60.6 | 60.5 | 58.8 |
| <i>New Orders</i> | 59.8 | 66.7 | 66.7 | 64.4 | 65.2 | 66.9 |
| <i>Production</i> | 59.3 | 59.4 | 60.0 | 59.6 | 59.4 | 63.1 |
| <i>Inventories</i> | 57.0 | 55.6 | 54.2 | 55.6 | 52.9 | 51.6 |
| Employment | 52.0 | 50.2 | 49.0 | 50.4 | 50.8 | 52.1 |
| <i>Supplier Deliveries</i> | 75.6 | 73.4 | 69.5 | 72.8 | 74.2 | 60.5 |
| <i>Order Backlog (NSA)</i> | 63.6 | 64.8 | 68.2 | 65.5 | 66.1 | 55.7 |
| <i>Prices Paid (NSA)</i> | 85.7 | 81.2 | 79.4 | 82.1 | 85.4 | 65.5 |
| <i>New Export Orders</i> | 54.6 | 53.4 | 56.6 | 54.9 | 55.3 | 55.7 |

Source: National Association of Purchasing Management