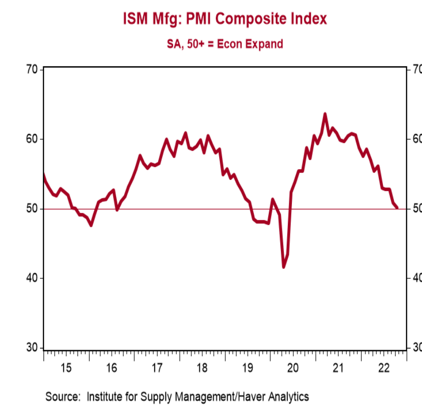
October ISM Manufacturing Index

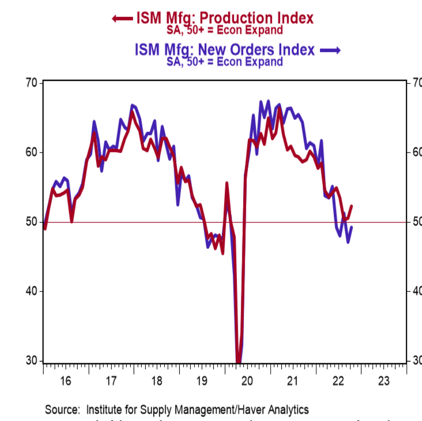
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Bryce Gill – Economist

- The ISM Manufacturing Index declined to 50.2 in October, narrowly beating the consensus expected 50.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were mixed in October. The production index rose to 52.3 from 50.6 in September, while the new orders index rose to 49.2 from 47.1. The supplier deliveries index declined to 46.8 from 52.4 in September and the employment index rose to 50.0 from 48.7.

- The prices paid index declined to 46.6 in October from 51.7 in September.





Implications: The manufacturing sector continued to expand in October, but at the slowest rate since the pandemic recovery began, with only eight of eighteen industries reporting growth. Respondent comments in October were mainly focused on worries about the pace of future activity with some customers pulling back on new orders due to worries about an economic slowdown. However, what was most notable about today's survey responses was what wasn't said. Specifically, the lack of comments related to supply chain issues which have plagued the manufacturing sector over the past few years. This was reflected in the data in today's report as well. While both the new orders and production indices posted increases in October (keeping the headline number out of contraction territory), new orders remained below 50. This is hardly surprising given that consumers have been shifting their preferences away from goods and back toward services. However, given that production remains in expansion, this is giving US factories time to catch up on all the existing orders they already have in the pipeline. The result is the first contraction in supply chain pressures in years. For example, the index for order backlogs fell to 45.3 in October, the first reading below 50 since the height of COVID worries in early 2020. Meanwhile, the supplier deliveries index fell to 46.8, its first time in contraction territory since 2015. This means supply chain problems aren't just getting worse at a slower rate, they are finally reversing. Meanwhile the employment index rebounded to 50.0 in October, signaling neither expansion nor contraction. A majority of panelists in October have said they are beginning to take a pause on new hiring and allowing labor turnover to reduce headcount, a sign that a weaker outlook for new orders may finally be hurting demand for labor in the US factory sector. Finally, the prices index in today's report continued to signal that inflation pressures have likely peaked in the goods sector, falling for the seventh month in a row to 46.6, the first number below 50 since 2020. While lower prices for goods will help moderate overall inflation, we expect that the services sector will now be the main driver going forward, keeping price growth well above the Fed's 2% target. In other news this morning, construction spending rose 0.2% in September, with large gains in manufacturing facilities and roads offsetting declines in healthcare and conservation projects. The gain in construction suggests an upward revision to last week's report that real GDP grew at a 2.6% annual rate in the third quarter.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Oct-22	Sep-22	Aug-22	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Business Barometer	**50.2**	50.9	52.8	51.3	52.6	60.8
New Orders	**49.2**	47.1	51.3	49.2	50.0	60.6
Production	**52.3**	50.6	50.4	51.1	52.7	59.0
Inventories	**52.5**	55.5	53.1	53.7	55.1	56.4
Employment	**50.0**	48.7	54.2	51.0	50.0	52.1
Supplier Deliveries	**46.8**	52.4	55.1	51.4	55.4	75.6
Order Backlog *(NSA)*	**45.3**	50.9	53.0	49.7	52.1	63.6
Prices Paid *(NSA)*	**46.6**	51.7	52.5	50.3	61.9	85.7
New Export Orders	**46.5**	47.8	49.4	47.9	50.0	54.6

Source: National Association of Purchasing Management