September ISM Manufacturing Index

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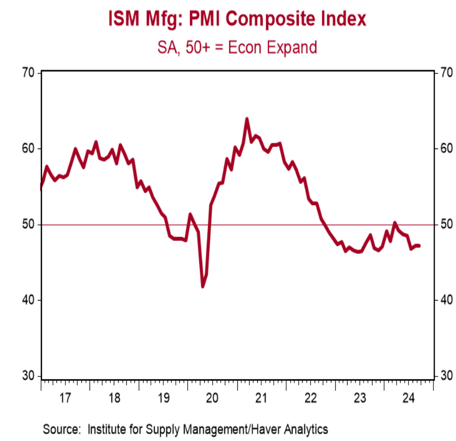
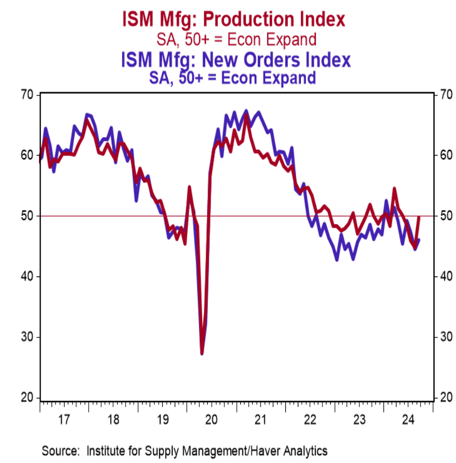
- The ISM Manufacturing Index remained at 47.2 in September, lagging the consensus expected 47.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were mixed in September. The new order index increased to 46.1 from 44.6, and the production index rose to 49.8 from 44.8. The employment index declined to 43.9 from 46.0 in August, while the supplier deliveries index rose to 52.2 from 50.5.

- The prices paid index declined to 48.3 in September from 54.0 in August.





Implications: The ISM Manufacturing index missed consensus expectations once again in September, remaining at a soft reading of 47.2. In the last two years, activity in the manufacturing sector has contracted for all but two months. Overall, only five of the eighteen major manufacturing industries reported growth in September, while thirteen reported contraction. Looking at the details, demand remained weak. The new orders index came in at 46.1 and has been in contraction in all but two months over the last two years. Respondent comments are noting a general slowdown in the economy and are adjusting production accordingly. That can be seen in movement from the production index, which stabilized at 49.8 after falling to the lowest level since the COVID lockdowns in August. Manufacturing companies have been able to scrape by despite weak demand by focusing on their order backlogs, which were artificially boosted with pent-up activity from the COVID years. That index, which remained deep in contraction territory at 44.1, has been below 50 for every month in the last two years. At some point, this reprieve for weaker demand has to give. Manufacturing companies have adjusted their hiring efforts with this revelation, as the employment index fell to a very weak 43.9 and hovers close to the lowest level since the COVID lockdown months. We think the continued weakness seen in the manufacturing sector is a result of the reductions in the M2 measure of the money supply from early 2022 through late 2023. And while M2 is up at a moderate pace in the last few months, it is still lower than it was two years ago. It appears as if these lagged impacts are also finally making their way into the inflation data, as the prices index fell into contraction territory for the first time this year. We expect inflationary pressures in the manufacturing sector to decline in the latter part of 2024 – along with continued manufacturing weakness – as tighter monetary policy from the last two years takes hold. In other news this morning, construction spending declined 0.1% in August, as a large drop in homebuilding was only partially offset by an increase for highway and street projects.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Sep-24	Aug-24	Jul-24	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Business Barometer	**47.2**	47.2	46.8	47.1	47.9	48.6
New Orders	**46.1**	44.6	47.4	46.0	47.0	48.6
Production	**49.8**	44.8	45.9	46.8	48.4	51.9
Inventories	**43.9**	50.3	44.5	46.2	46.7	45.4
Employment	**43.9**	46.0	43.4	44.4	47.1	50.9
Supplier Deliveries	**52.2**	50.5	52.6	51.8	50.5	46.4
Order Backlog *(NSA)*	**44.1**	43.6	41.7	43.1	43.2	42.4
Prices Paid *(NSA)*	**48.3**	54.0	52.9	51.7	54.2	43.8
New Export Orders	**45.3**	48.6	49.0	47.6	48.5	47.4

Source: National Association of Purchasing Management