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October ISM Manufacturing Index

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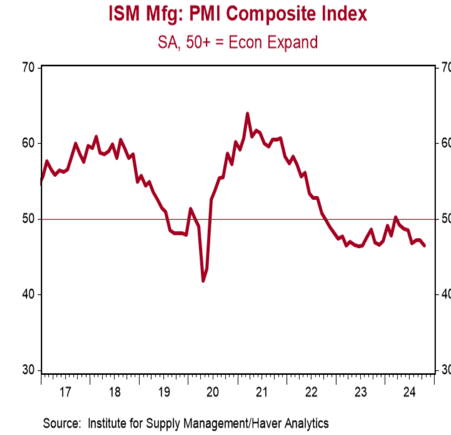
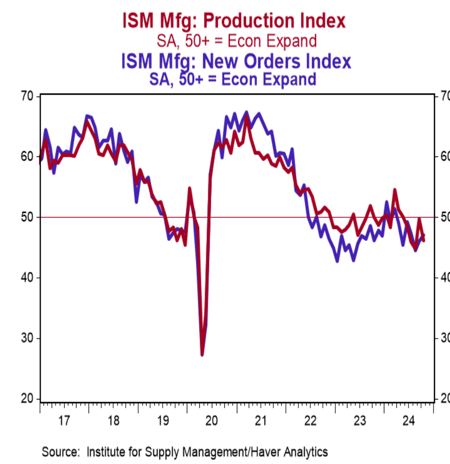
- The ISM Manufacturing Index declined to 46.5 in October, lagging the consensus expected 47.6. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were mixed in October. The new order index increased to 47.1 from 46.1, while the production index declined to 46.2 from 49.8. The employment index rose to 44.4 from 43.9 in September, while the supplier deliveries index declined to 52.0 from 52.2.

- The prices paid index increased to 54.8 in October from 48.3 in September.





Implications: Another ugly report on the US manufacturing sector as activity and employment fell while inflation increased in October. The ISM Manufacturing index missed consensus expectations once again, falling to 46.5, with just five major industries reporting growth and eleven reporting contraction. In the last two years, activity in the manufacturing sector has contracted for all but one month. Looking at the details of the report, demand and production both remained weak. The indexes for new orders and production are firmly in contraction territory (and have both remained below 50 since June), demonstrating the economic and political uncertainty that has been echoed by manufacturing companies in their survey comments in recent months. Some 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 fell into deeper contraction territory at 42.3, 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 came in at a very weak 44.4 and hovers close to the lowest level since the COVID lockdown months. Ultimately, 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. The worst part of the report came from developments on the inflation front. The prices paid index increased to 54.8 in October, the highest level since this Summer, with eleven industries paying higher prices for the month. While the Fed believes they have room to continue cutting rates at the meetings ahead, the embers of inflation still remain, and there are serious risks that an overly aggressive path of cuts could bring with them a pickup in the M2 measure of money, and with it a return of inflation. In other news this morning, construction spending rose 0.1% in September, as a large increase in homebuilding was only partially offset by drops for manufacturing and health care projects.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Oct-24	Sep-24	Aug-24	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	**46.5**	47.2	47.2	47.0	47.5	46.9
New Orders	**47.1**	46.1	44.6	45.9	46.7	46.2
Production	**46.2**	49.8	44.8	46.9	47.6	50.0
Inventories	**42.6**	43.9	50.3	45.6	45.8	43.6
Employment	**44.4**	43.9	46.0	44.8	46.4	47.1
Supplier Deliveries	**52.0**	52.2	50.5	51.6	51.0	47.7
Order Backlog *(NSA)*	**42.3**	44.1	43.6	43.3	42.6	42.2
Prices Paid *(NSA)*	**54.8**	48.3	54.0	52.4	53.2	45.1
New Export Orders	**45.5**	45.3	48.6	46.5	48.0	49.4

Source: National Association of Purchasing Management