

September ISM Manufacturing Index

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

- The ISM manufacturing index declined to 50.2 in September, coming in below the consensus expected level of 50.6. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all lower in September, but all remain above 50. The production index fell to 51.8 from 53.6, while the new orders index moved lower to 50.1 from 51.7. The employment index slipped to 50.5 from 51.2, and the supplier deliveries index fell to 50.2 from 50.7.
- The prices paid index declined to 38.0 in September from 39.0 in August.

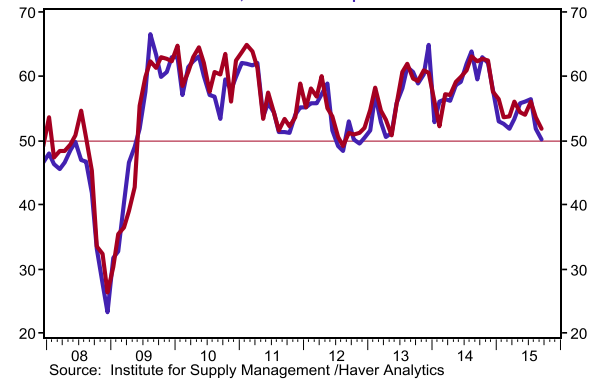
Implications: We said it last month, but it bears repeating. Yes, today’s report from the ISM showed the lowest reading for the headline index going back to 2012, but it is important to remember that the index measures the pace of expansion and contraction. Levels above 50 represent expansion, so while September’s reading of 50.2 is lower than August’s reading of 51.1, that does not mean that activity has declined. Instead, it continues to expand at a slightly slower pace than in recent months. It should also be noted that the September reading represents a 33rd consecutive month above 50. On the inflation front, the prices paid index declined to 38.0 in September from 39.0 in August, as falling prices for crude oil and gasoline helped push prices lower for fourteen of the eighteen industries reporting. The prices paid index has now shown contraction in prices for eleven consecutive months. Taken as a whole, today’s report is about as plow horse as they come. Each of the major measures of activity moved lower in September, but all remained above 50, signaling continued expansion. The modest readings from the ISM manufacturing report in 2015 may have some worried that a slowdown could be the early signs of a downturn in the economy, but we disagree. While the overall index remains below the peak of 58.1 seen in August 2014, we don’t believe this is anything to worry about. Data on employment, housing, and consumer spending continue to show strength, while the weaknesses in economic data have almost all come from surveys, which can reflect sentiment as much as actual economic activity. When looking at the fundamentals of the broader economy, there remains [no recession in sight](#). In other news this morning, new claims for unemployment insurance increased 10,000 last week to a still low 277,000. Claims have been below 300,000 for seven consecutive months. Continuing claims dropped 51,000 to 2.19 million, the lowest since November 2000. Also on the labor market, yesterday’s ADP report showed a gain of 200,000 in private-sector payrolls in September. Plugging these figures into our models suggests tomorrow’s official employment report will show nonfarm payrolls up 192,000 in September. We expect that to be accompanied by upward revisions for August and that September will be revised up in future reports as well. Meanwhile, construction rose 0.7% in August, led by home building. In other recent housing news, the national Case-Shiller home price index increased 0.4% in July and is up 4.7% in the past year. Price increases in the past twelve months have been led by San Francisco, Denver, Dallas, and Portland.

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



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

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



Institute for Supply Management Index	Sep-15	Aug-15	Jul-15	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	50.2	51.1	52.7	51.3	52.0	56.1
New Orders	50.1	51.7	56.5	52.8	53.9	59.4
Production	51.8	53.6	56.0	53.8	54.3	62.4
Inventories	48.5	48.5	49.5	48.8	50.1	51.5
Employment	50.5	51.2	52.7	51.5	51.7	54.6
Supplier Deliveries	50.2	50.7	48.9	49.9	49.9	52.6
Order Backlog (NSA)	41.5	46.5	42.5	43.5	46.8	47.0
Prices Paid (NSA)	38.0	39.0	44.0	40.3	43.4	59.5
New Export Orders	46.5	46.5	48.0	47.0	48.7	53.5

Source: National Association of Purchasing Management