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# October ISM Manufacturing Index

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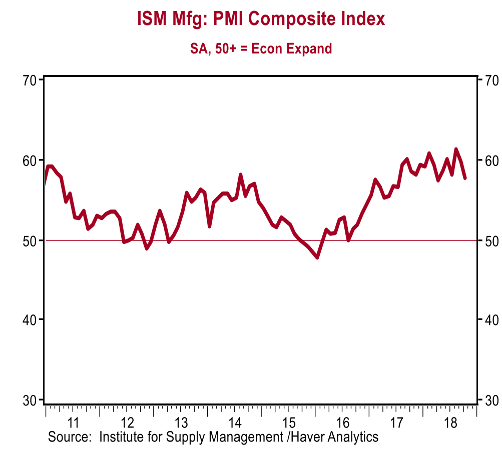
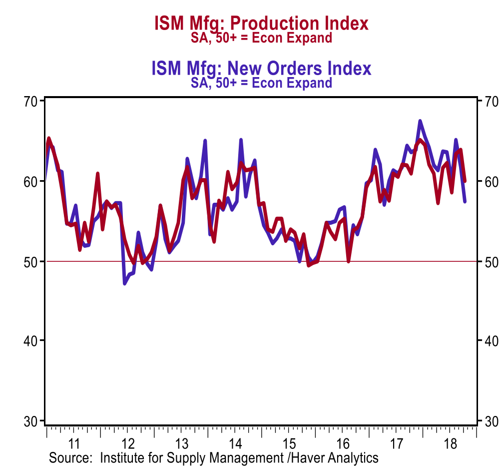
- The ISM Manufacturing Index declined to 57.7 in October, lagging the consensus expected 59.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were mostly lower in October, but all stand comfortably above 50, signaling growth. The new orders index declined to 57.4 from 61.8 in September, while the production index fell to 59.9 from 63.9. The employment index declined to 56.8 from 58.8. The supplier deliveries index rose to 63.8 from 61.1 in September.

- The prices paid index rose to 71.6 in October from 66.9 in September.




**Implications:** Manufacturing activity continued the trend higher in October, but at a slower pace than in recent months. Remember, readings above 50 show expansion, so October's 57.7 signals continued healthy growth, with thirteen of eighteen industries reporting expansion while four reported contraction. For perspective, the October reading stands above the 54.9 average for the past five years. That said, the October report came in softer than expected with a broad-based slowdown in the pace of growth. The two most forward-looking indices – new orders and production – led the decline, both down by four or more points from September. Is that reason for concern? Hardly. Before the October decline to a reading of 57.4, the new orders index had shown a reading of 60+ for seventeen straight months, the longest stretch above 60 going all the way back the early 1970s. Production also dipped below 60 in October, with companies attributing slowdowns to labor constraints, lead-time expansion, and transportation difficulties. Could the lead-time expansion be related to the ongoing "trade war"? Possibly, but it's hard to argue that labor and transportation constraints are the result of tariffs. Rather, those are signs of companies trying to keep up with an economy growing at the fastest pace in more than a decade and a jobless rate at its lowest level since 1969. Delivery times – as reflected in the supplier deliveries index - continue to rise. In other words, the stresses in the manufacturing sector that slowed the pace of growth in October point to more investment, hiring, and production in the months ahead. In the meantime, expect prices to continue higher as they did in October. Rising prices, in turn, suggests inflation (already above the Fed's 2% target) will continue to run warmer, putting pressure on the Fed to maintain its course of gradually raising short-term interest rates. In other news this morning, nonfarm productivity rose at a 2.2% annual rate in the third quarter, coming in above the consensus expected rise of 2.1%. Productivity is up at a 1.8% annualized rate so far in 2018 versus an average annual rate of 1.1% from mid-2009 through the end of 2017, a sign that the underlying trend in growth has picked up. On the construction front, spending was unchanged in September (+0.8% including revisions to prior months). Construction spending is up 7.2% in the past year, a clear acceleration from the pace over the same periods ending in 2016 and 2017. In employment news this morning, initial jobless claims fell 2,000 last week to 214,000. Meanwhile, continuing claims fell 7,000 to 1.63 million, the lowest reading since 1973! These figures are consistent with our final forecast that nonfarm payrolls rose 205,000 in October, a rebound after Hurricane Florence held down job growth in September. In housing news earlier this week, the national Case-Shiller home price index increased 0.6% in August and is up 5.8% from a year ago. That's slightly slower than the 5.9% gain in the year ending in August 2017. In the past twelve months, home price gains have been led by Las Vegas, San Francisco, and Seattle.

| Institute for Supply Management Index<br>*Seasonally Adjusted Unless Noted: 50+ = Econ Growth* | Oct-18 | Sep-18 | Aug-18 | 3-month<br>*moving avg* | 6-month<br>*moving avg* | Year-ago<br>*level* |
|---|---|---|---|---|---|---|
| ***Business Barometer*** | **57.7** | 59.8 | 61.3 | 59.6 | 59.3 | 58.5 |
| ***New Orders*** | **57.4** | 61.8 | 65.1 | 61.4 | 62.0 | 63.5 |
| ***Production*** | **59.9** | 63.9 | 63.3 | 62.4 | 61.6 | 61.0 |
| ***Inventories*** | **50.7** | 53.3 | 55.4 | 53.1 | 52.3 | 48.1 |
| ***Employment*** | **56.8** | 58.8 | 58.5 | 58.0 | 57.2 | 59.8 |
| ***Supplier Deliveries*** | **63.8** | 61.1 | 64.5 | 63.1 | 63.6 | 60.1 |
| ***Order Backlog*** *(NSA)* | **55.8** | 55.7 | 57.5 | 56.3 | 57.9 | 53.9 |
| ***Prices Paid*** *(NSA)* | **71.6** | 66.9 | 72.1 | 70.2 | 73.4 | 68.1 |
| ***New Export Orders*** | **52.2** | 56.0 | 55.2 | 54.5 | 55.1 | 55.1 |

*Source: National Association of Purchasing Management*