

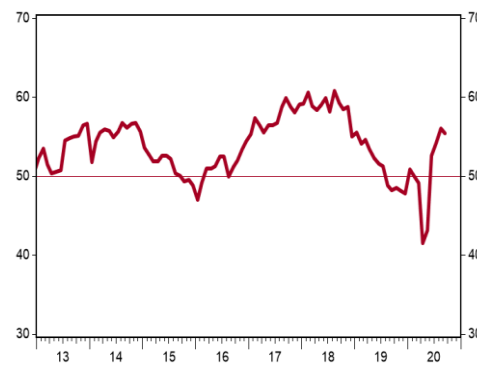
September ISM Manufacturing Index

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- The ISM Manufacturing Index declined to 55.4 in September, lagging the consensus expected 56.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in September. The new orders index declined to 60.2 from 67.6 in August, while the production index fell to 61.0 from 63.3. The employment index rose to 49.6 from 46.4, and the supplier deliveries index increased to 59.0 from 58.2 in August.
- The prices paid index rose to 62.8 in September from 59.5 in August.

Implications: The pace of growth in the manufacturing sector slowed in September, but it continues to expand at a healthy clip. Remember, readings above 50 signal expansion, so the September reading of 55.4 is comfortably within growth territory, even if it is a modest decline from the August print of 56.0 (which, it’s worth noting, was the highest reading for the index since late 2018). Growth in September remained broad-based, with fourteen of eighteen industries reporting expansion, while four reported contraction. And comments from survey respondents showed more than two positive comments for every cautious comment. Looking at the major indices, the two most forward looking – new orders and production – led the headline number lower in September, showing declines from August’s multi-year highs, but remain above 60.0. Given that the customers’ inventories index (where a reading below 50 signals inventory levels are too low), hit the lowest reading in more than a decade at 37.9 in September, while at the same time the backlog of orders index (which show orders rising faster than production can fill them) hit a multi-year high at 55.2, the data suggest activity should remain robust for the foreseeable future. Employment, meanwhile, remains on the “bad, but not as bad” path, rising to 49.6 in September from 46.4 in August. We are projecting that tomorrow’s report on nonfarm payrolls will show a gain of 1.073 million jobs in September, which would move the unemployment rate down to around 8.0% from 8.4% in August. The index for supplier deliveries, which rises when companies have difficulty meeting demand on a timely basis, and moves lower as delays ease, moved higher in September to 59.0. The coronavirus and related shutdowns have wreaked havoc on supply chains, in particular, transportation challenges, labor shortages, and limitations on the number of workers who can be present at any given time due to safety concerns. These challenges have generated a sustained headwind to the process of getting back to business and are expected to remain for the foreseeable future, representing one of the biggest headwinds to even faster production and inventory growth. On the inflation front, the prices paid index rose to 62.8 from 59.5 in August, as rising costs for aluminum, copper, and freight led the index. This, too, is in part a reflection of the supplier delivery difficulties, as rising costs to acquire and produce input materials are being passed along to manufacturing companies. Recovery is clearly under way, and now the focus shifts towards the ability of companies to return to business and meet demand. It’s not smooth sailing yet, but the path ahead continues to improve. In other news this morning, construction spending rose 1.4% in August (+3.5% including upward revisions to prior months). Strong growth in homebuilding, paired with increased public spending on highways & streets, was partially offset by a decline in private sector power projects.

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



Source: Institute for Supply Management/Haver Analytics

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



Source: Institute for Supply Management/Haver Analytics

Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Sep-20	Aug-20	Jul-20	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	55.4	56.0	54.2	55.2	50.5	48.2
New Orders	60.2	67.6	61.5	63.1	50.8	48.5
Production	61.0	63.3	62.1	62.1	50.7	48.4
Inventories	47.1	44.4	47.0	46.2	48.2	46.3
Employment	49.6	46.4	44.3	46.8	40.3	46.5
Supplier Deliveries	59.0	58.2	55.8	57.7	62.3	51.3
Order Backlog (NSA)	55.2	54.6	51.8	53.9	47.2	45.1
Prices Paid (NSA)	62.8	59.5	53.2	58.5	50.5	49.7
New Export Orders	54.3	53.3	50.4	52.7	46.7	41.0

Source: National Association of Purchasing Management