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October ISM Manufacturing Index

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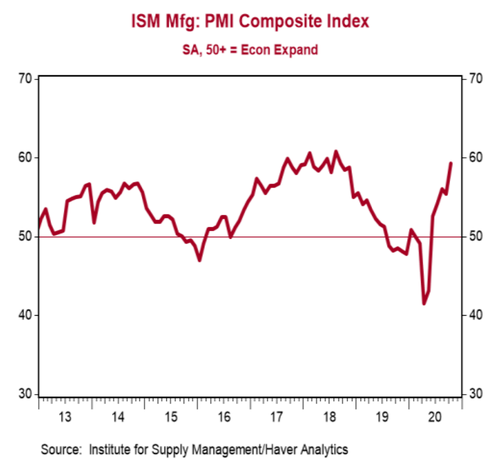
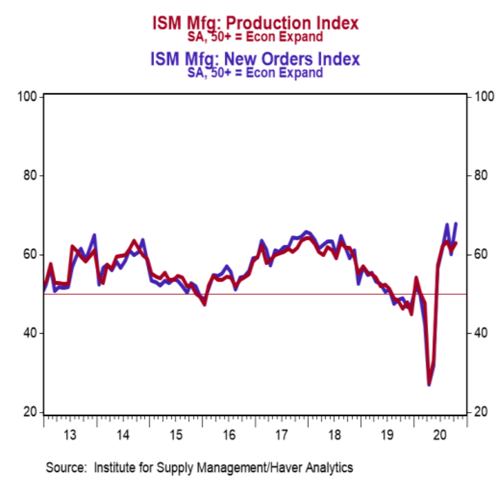
- The ISM Manufacturing Index rose to 59.3 in October, easily beating the consensus expected 56.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were all higher in October. The new orders index surged to 67.9 from 60.2 in September, while the employment index rose to 53.2 from 49.6. The production index increased to 63.0 from 61.0, and the supplier deliveries index moved higher to 60.5 from 59.0 in September.

- The prices paid index rose to 65.5 in October from 62.8 in September.





Implications: Manufacturing soared in October, with the ISM index notching its highest reading in more than two years. Readings above 50 signal expansion in the manufacturing sector, so the October mark of 59.3 is deep in growth territory. And importantly, the pickup in activity remained broad-based in October, with fifteen of eighteen industries reporting expansion, while two – textile mills and printing & related support activities - reported contraction (one industry reported no change). It's not that COVID-19 and its related impacts are gone, it's that companies adapt. To quote today's report "Survey Committee members reported that their companies and suppliers continue to operate in reconfigured factories; with every month, they are becoming more proficient at expanding output." 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 – both moved further into levels above 60, representing a robust pace of activity and, on the new orders side, hitting a multi-decade high. 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 36.7 in October, 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 55.7, the data suggest activity should remain robust for the foreseeable future. Employment, meanwhile, moved back into expansion territory for the first time since July of 2019 (yes – this index was showing contraction well before the pandemic). Does that mean manufacturing employment has been in decline over that period? No. In fact, with the exceptions of March and April, the manufacturing sector saw job creation in nine of the twelve months the index showed contraction. While it may change with data out over the coming days, we are projecting that Friday's report on manufacturing payrolls will show a gain of 35,000 jobs in October, with total nonfarm payrolls growing by 600,000. 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 60.5. 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 65.5 from 62.8 in September, as rising costs for aluminum, copper, and steel 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. It's not smooth sailing yet, but the path ahead continues to improve. In other news this morning, construction spending rose 0.3% in September (+0.1% including revisions to prior months). Strong growth in homebuilding was largely offset by a decline in public spending on highways & streets, as well as a slowing in private-sector power projects.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Oct-20	Sep-20	Aug-20	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	**59.3**	55.4	56.0	56.9	53.4	48.5
New Orders	**67.9**	60.2	67.6	65.2	57.6	48.9
Production	**63.0**	61.0	63.3	62.4	56.7	46.3
Inventories	**51.9**	47.1	44.4	47.8	48.6	49.4
Employment	**53.2**	49.6	46.4	49.7	44.6	47.9
Supplier Deliveries	**60.5**	59.0	58.2	59.2	59.7	50.1
Order Backlog *(NSA)*	**55.7**	55.2	54.6	55.2	50.1	44.1
Prices Paid *(NSA)*	**65.5**	62.8	59.5	62.6	55.5	45.5
New Export Orders	**55.7**	54.3	53.3	54.4	50.1	50.4

Source: National Association of Purchasing Management