

## September ISM Manufacturing Index

Nate Gerze, CFA – Economic Analyst  
 Brian S. Wesbury – Chief Economist  
 Robert Stein, CFA – Dep. Chief Economist

- The ISM Manufacturing Index rose to 49.1 in September, narrowly beating the consensus expected 49.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in September. The production index increased to 51.0 from 47.8, while the new orders index declined to 48.9 from 51.4. The employment index rose to 45.3 from 43.8 in August and the supplier deliveries index increased to 52.6 from 51.3.
- The prices paid index declined to 61.9 in September from 63.7 in August.

**Implications:** Manufacturing activity remained soft in September but did not contract as rapidly as in August, with the index narrowly beating expectations and rising to 49.1. This makes seven consecutive months that the ISM Manufacturing index has been below 50, continuing a pattern that stretched all of 2023 and 2024. While many believed the downturn was over when the index briefly rose above 50 in January and February, the subsequent seven months of weak readings warrant caution for the industry. Looking at the details, just five of the eighteen major manufacturing categories reported growth in September, while more than double (eleven) reported contraction. Unfortunately, the new orders index – which broke into expansion territory last month for the first time since January – contracted in September, falling to 48.9. Order books were weak heading into this year; now, survey comments blame tariff uncertainty for the weakness, as many customer orders have been placed on pause until stability returns. In addition, survey comments also report that companies are largely shouldering the added costs where tariffs have been put in place, as customers are unwilling to pay the higher prices and simply choosing not to buy. This has caused companies to look for ways to reduce overhead, most notably through their hiring efforts. Though the employment index rose to 45.3, it remains firmly in contraction territory, with only one major manufacturing category (Nonmetallic Mineral Products) reporting an increase in employment in September versus fourteen reporting a decrease. Despite the stagnation in manufacturing, inflation pressures remain. The prices index declined to 61.9 – high by historical standards – although below the recent peak of 69.7 in June, and well below the levels during the post-COVID inflation surge. In other news this morning, ADP's measure of private payrolls declined 32,000 in September versus a consensus expected increase of 51,000, the third decline in the past four months. However, there are often large gaps between the initial ADP report and the official report from the Labor Department, so we are estimating Friday's official report will show a nonfarm payroll gain of 80,000 with the unemployment rate remaining at 4.3%. On the housing front, pending home sales, which are contracts on existing homes, increased 4.0% in August, suggesting a gain in existing home sales in September. Declining prices might be part of the reason for any pickup in sales, with both the FHFA and Case-Shiller indexes down 0.1% in July. That's the fourth straight monthly decline for the FHFA and fifth straight for the Case-Shiller. Compared to a year ago, FHFA prices are up 2.3% while Case-Shiller prices are up 1.7%, both less than overall inflation.

ISM Mfg: PMI Composite Index

SA, 50+ = Econ Expand



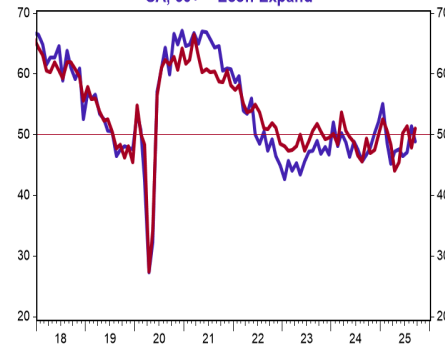
Source: Institute for Supply Management/Haver Analytics

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-25	Aug-25	Jul-25	3-month moving avg	6-month moving avg	Year-ago level
<b>Business Barometer</b>	<b>49.1</b>	48.7	48.0	48.6	48.7	47.5
<b>New Orders</b>	<b>48.9</b>	51.4	47.1	49.1	48.1	46.7
<b>Production</b>	<b>51.0</b>	47.8	51.4	50.1	48.3	49.4
<b>Inventories</b>	<b>47.7</b>	49.4	48.9	48.7	48.8	44.7
<b>Employment</b>	<b>45.3</b>	43.8	43.4	44.2	45.1	44.6
<b>Supplier Deliveries</b>	<b>52.6</b>	51.3	49.3	51.1	53.1	52.2
<b>Order Backlog (NSA)</b>	<b>46.2</b>	44.7	46.8	45.9	45.5	44.1
<b>Prices Paid (NSA)</b>	<b>61.9</b>	63.7	64.8	63.5	66.6	48.3
<b>New Export Orders</b>	<b>43.0</b>	47.6	46.1	45.6	44.4	45.3

Source: National Association of Purchasing Management