

September ISM Manufacturing Index

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- The ISM Manufacturing Index declined to 54.5 in September, lagging the consensus expected 55.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in September. The new orders index increased to 55.3 from 53.7, while the production index declined to 56.7 from 58.3. The employment index rose to 52.7 from 51.2, while the supplier deliveries index declined to 59.0 from 59.3.
- The prices paid index increased to 77.9 in September from 71.1 in August.

Implications: Activity in the manufacturing sector continued expanding in September, although at a slightly slower pace than the previous month. Despite this being the second consecutive decline in the headline index, the 54.5 reading for the ISM Manufacturing index marks the third-fastest pace since 2022. Activity has now expanded for nine consecutive months, an encouraging development for an industry that has faced significant challenges in recent years, and which now appears to be benefitting from AI-related capital investment, the reshoring of production, and increased defense procurement. Looking at the details of the report, twelve out of the eighteen major manufacturing industries reported growth in September, with only two industries reporting contraction (Printing and Textile Mills), and four reporting no change. The major measures of activity were mixed for the month, but all stand above 50, signaling growth. New orders picked up in September, which (until this year) had been very weak going back to 2023, leaving many manufacturers focused on order backlogs to keep production going. So, it's good to see that along with the rise in new orders (currently sitting at 55.3), order backlogs have grown each month in 2026 after more than three straight years in contraction and now sit at a seven-month high of 56.4. The best news in the report is that the improvement in demand has finally convinced manufacturers to start adding workers, with the employment index staying in expansion territory for the third month in a row, rising to 52.7, after nearly three straight years of contraction. The worst news in the report is that inflation pressures accelerated in September, rising to 77.9 after stabilizing in the low 70s in previous months. The report notes that the prices index has been driven by (1) increases in steel and aluminum prices that impact the entire value chain, (2) tariffs applied to imported goods and (3) increases in petroleum-based products as a result of the Middle East conflict. This further strengthens our expectation for the Federal Reserve to hike short term interest rates at the meeting in December (skipping action at this month's meeting), but the below-trend growth in the M2 money supply suggests inflation will come down faster than most investors expect on the other side of the Iran War. In other news this morning, construction spending increased 0.9% in August, as large increases for homebuilding and office construction more than offset a decline in other commercial projects. On the employment front, initial jobless claims last week ticked down by 1,000 to 197,000; continuing claims declined 11,000 to 1.701 million.

ISM Mfg: PMI Composite Index

SA, 50+ = Econ Expand



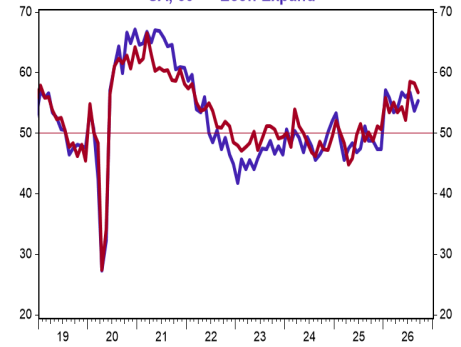
Source: Institute for Supply Management/Haver Analytics

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	Sep-26	Aug-26	Jul-26	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	54.5	54.6	55.6	54.9	54.1	48.9
New Orders	55.3	53.7	56.7	55.2	55.4	48.7
Production	56.7	58.3	58.5	57.8	55.6	50.1
Inventories	48.6	50.6	51.2	50.1	50.1	47.8
Employment	52.7	51.2	52.8	52.2	50.2	45.4
Supplier Deliveries	59.0	59.3	58.9	59.1	59.3	52.6
Order Backlog (NSA)	56.4	51.8	55.0	54.4	52.9	46.2
Prices Paid (NSA)	77.9	71.1	71.1	73.4	76.6	61.9
New Export Orders	50.9	53.2	53.0	52.4	50.7	43.0

Source: National Association of Purchasing Management