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Economics Group

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Manufacturing Activity Eases Up in October

The ISM manufacturing index slipped in October to a still-strong reading of 57.7. A sharp drop in new orders suggests a further slowdown may be in store, however. Input costs remain an issue.

Manufacturing Remains Strong, but Cracks Beginning to Show

Activity in the manufacturing sector eased in October with the ISM index shedding 2.1 points. While at 57.7 the index signals output remains solid, the index has slipped below both its six- and 12-month averages.

We highlighted in September that the euphoric, 60-ish readings of the summer were likely not sustainable, especially in a strong-dollar environment. Today's report flashed additional signals that activity in the manufacturing sector is beginning to moderate from the impressive pace registered over the past year. Specifically, the new orders index posted the largest pullback over the month, falling 4.4 points to 57.4. That marks the first time in a year and a half that new orders have come in below 60.

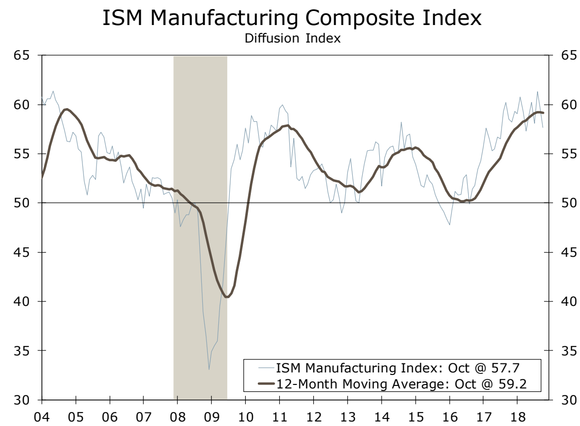
The stronger dollar and slowdown in global trade may finally be coming to bear. The export orders index slipped to 52.2, which was the lowest reading since 2016. Production moderated in October, but the slowdown in new orders suggests current output growth may slip further. The backlogs index was little changed in October at 55.8, but is also below its six-month average.

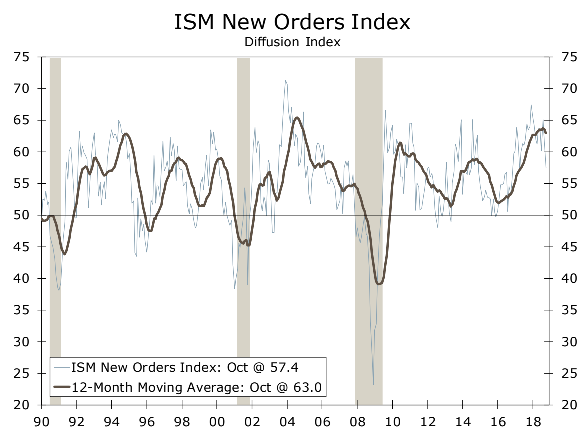
With orders and production growth slowing, manufacturers eased up on the pace of hiring. The employment component slipped two points in October to 56.8. Manufacturing has been one of the strongest areas for job growth over the past year, growing half a percent more than total employment since last September. Hiring has come off the boil slightly over the past few months (averaging 15,000 jobs per month in Q3 versus 24,000 per month in the first half of the year), but today's read on hiring suggests the nation's factories are still hiring at a decent, albeit slower rate.

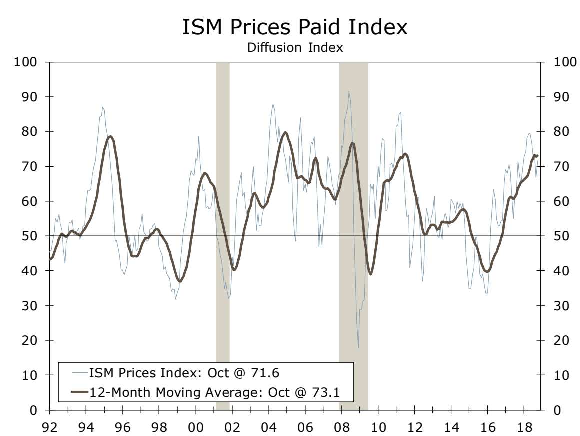
Despite having slowed a bit since the spring, input costs continue to rise at a rapid rate. The prices paid component moved back above 70 in October. Tariffs remain a concern among respondents, with multiple comments about tariffs leading to higher costs, and in some cases starting to be passed on to the costs of goods sold. In the case of a food manufacturer, however, protein prices were "under pressure from heavy U.S. supplies and export concerns related to trade tariffs."

Rebound Unlikely

We see scope for the ISM manufacturing index to moderate further in the coming months. The dollar continued to climb through October and the lagged effect of currency fluctuations suggest it will remain a headwind in the months to come. At the same time, trade tensions show no sign of easing up. Uncertainty about the environment will likely be a deterrent for capital spending. While not tracked by the ISM, regional Federal Reserve purchasing managers indices report a noticeable slowdown in manufacturers' capital spending plans since the start of the year, which suggests the industry itself is bracing for a slowdown.







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