



Economics Group

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ISM Manufacturing Remains Near Cycle Highs

Manufacturing activity moderated slightly in October with the ISM index shedding 2.1 points off its September high. The underlying details are encouraging and signal continued strength in the factory sector.

Despite Modest Retreat in Headline, Production Remains Strong

The ISM manufacturing index retreated ever so slightly in October, losing 2.1 points to post a still solid figure of 58.7. The composite index is coming off a cycle high of 60.8 and continues to signal firmness in the manufacturing sector. As effects from the recent hurricanes fade from the data, we can get a more accurate read of how the manufacturing sector is performing.

While the majority of the index's subcomponents experienced a negative monthly change, the details are still encouraging. The production subcomponent lost 1.2 points but remains above 60.0, and has done so for 5 consecutive months. Likewise, the new orders component lost 1.2 points but posted a 63.4 reading, suggesting that future orders will remain strong in the coming months (top graph). This marks the 14th consecutive month of new orders growth.

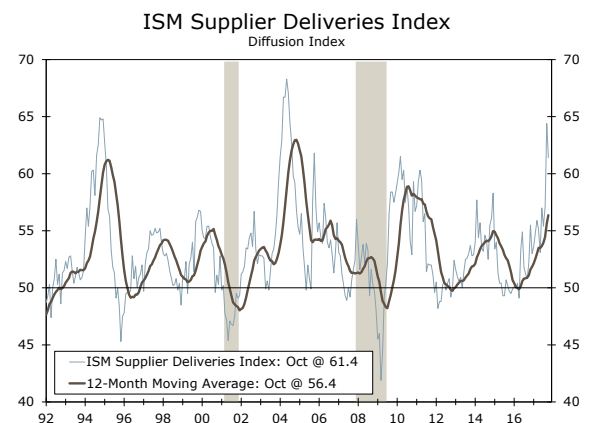
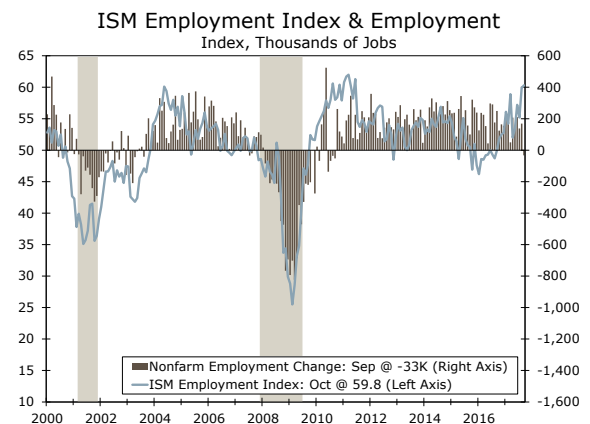
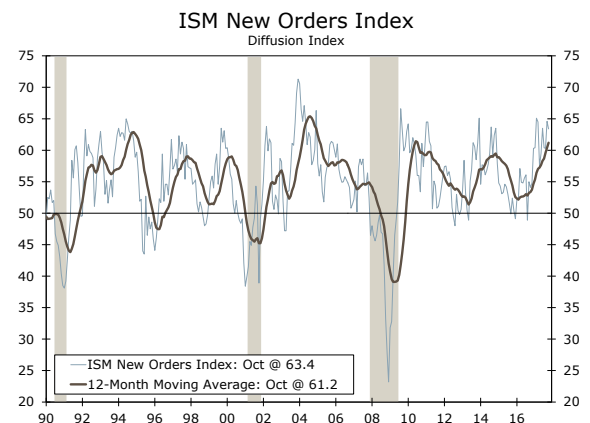
Despite the 0.5 point decline in the employment subcomponent, hiring in the manufacturing sector continues to exhibit strength (middle graph). Of the 18 manufacturing industries, 15 reported employment growth in October. Friday's employment report will provide us with more detailed figures of the actual number of hires. We look for the factory sector to add to payroll growth in Friday's employment report.

Law of Supply Chain Disruptions

A line item that has perhaps not yet escaped the hurricanes' power is the supplier delivery component. Last month, supplier deliveries jumped 7.3 points to 64.4, reflecting storm disruptions from the Gulf area that caused delivery times to lengthen (bottom graph). The 3.0 point decline in October represents a partial normalization of the delivery supply chains. However, the 61.4 reading still remains elevated above its 6-month average of 55.1. We expect this component to continue to moderate in the coming months as businesses are able to return to their normal delivery schedules.

The inventory index came in at 48.0, a 4.5 point decline from September and is firmly below its 6-month average. The contraction partially reflects the supply chain disruptions, which has made it difficult for companies to deliver materials on their scheduled times. Customer inventories registered 43.5 in October, representing a 1.5 percentage point increase from September, indicating that customers' inventory levels are still considered too low.

Another area where hurricane effects were still lingering was in prices. Although the prices paid index fell to 68.5 in October, the index is still at elevated levels. Prices for raw materials have now increased for 20 consecutive months.



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