



Economics Group

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ISM: Manufacturing Gains Remain Modest—Prices Steady

U.S. manufacturing continues to inch out a modest gain, with orders, output and employment remaining around breakeven. Meanwhile, prices paid are rising and suggest small relief ahead for input prices.

Growth at a Moderate Pace

American manufacturing firms continue to align production and employment with a subpar pace of growth in the overall economy. Headline ISM rose to 51.6 in September from 50.6 last month (top chart), just above the breakeven level, with production and employment coming in just over their breakeven levels. The level of the ISM is consistent with slow improvement in the overall economy. The production index came in at 51.2 in September after a reading of 48.6 in August. Nine industries reported gains in September, including paper, fabricated metals, electrical equipment and transportation. We are sticking with our outlook for a moderate pace of growth for the national economy in the second half.

Employment showed a nice gain of 2 points to 53.8 after a drop in August to 51.8, and this intimates a continued string of modest gains in manufacturing jobs going forward. According to the ISM survey, nine industries reported a gain in jobs, including paper, chemicals, transportation and machinery.

New Orders Component Suggests Slowdown Continues

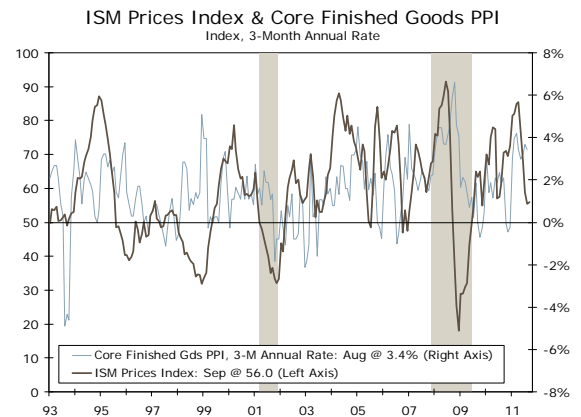
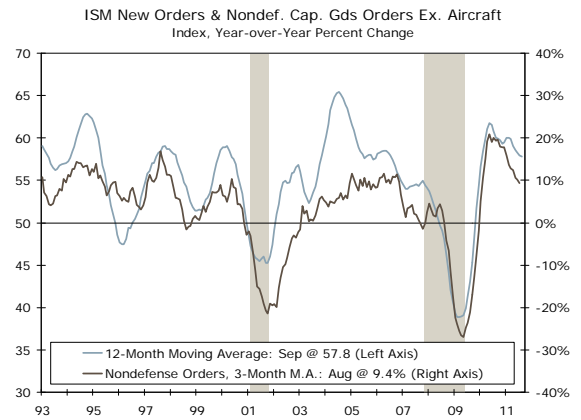
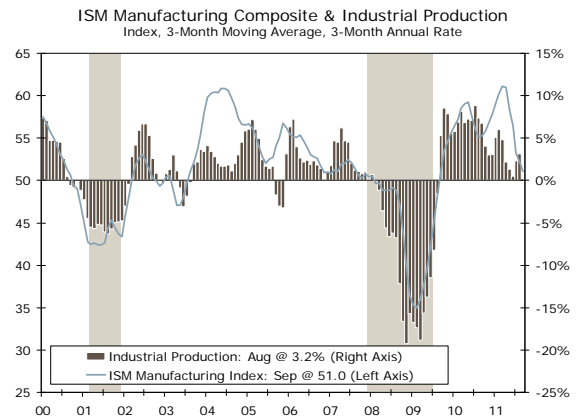
New orders (middle chart) remained below breakeven in September, hinting that there is less support for gains in manufacturing production in the months ahead. Seven industries reported growth in new orders, including chemicals, fabricated metals, printing and food/beverage. Since orders are a leading indicator, the drop in this index suggests the second half pickup in economic growth will be far less than some had estimated.

On the trade side, the new export orders component remained above 50 and indicates that American manufacturers see modest strength in orders from foreign countries. Seven industries reported a gain in export orders. This result suggests many manufacturing industries, for example, fabricated metals, computers and chemicals, can compete globally.

Prices Paid: Slowdown a Good Sign for Cost Control and Profits

Continued moderation in the prices paid component indicates reduced input cost pressures on businesses and is a welcome sign of reduced inflation pressures at the wholesale level. The price index at 56.0 in September indicates prices are rising, but at a much more moderate pace than what was the case earlier this year (bottom chart). Thirteen of the 18 sectors reported higher prices paid, including primary metals, chemicals, paper, machinery and electrical equipment.

For inflation, the complete pass-through of rising commodity prices to consumer prices does not seem likely, but there certainly continues to be some elevation in prices. For decision makers in both the private and public sectors, the bias on future prices is to the upside even though the current pace of inflation appears moderate.



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