

Economics Group

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ISM: Manufacturing Gains Remain Modest—Prices Drop

U.S. manufacturing continues to inch out a modest gain, with orders, output and employment each remaining around breakeven. Inventory adjustment drove down the headline release. Price pressures ease.

Growth at a Moderate Pace, Once Again

American manufacturing firms continue to align production and employment with a subpar pace of growth in the overall economy. Headline ISM fell to 50.8 in October from 51.6 in September (top chart), but the decline reflected a sharp inventory correction rather than a decline in the overall pace of current production and employment. Production and employment came in at 50.1 and 53.5, respectively, just over their breakeven levels. The level of the ISM is consistent with slow improvement in the overall economy. Eight industries reported production gains in October, including primary metals, paper, fabricated metals and computers. We are sticking with our outlook for a moderate pace of growth for the national economy for the next two quarters.

Employment showed a steady hand at 53.5 in October and thereby suggests a gain in manufacturing employment to be reported on Friday. According to the ISM survey, eight industries reported a gain in jobs, including paper, computers, transportation and machinery.

New Orders Component Suggests the Slowdown Continues

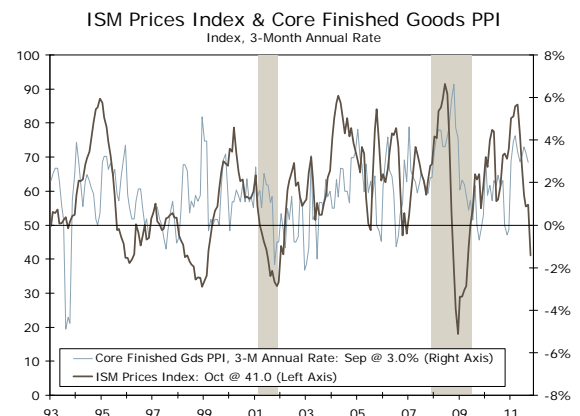
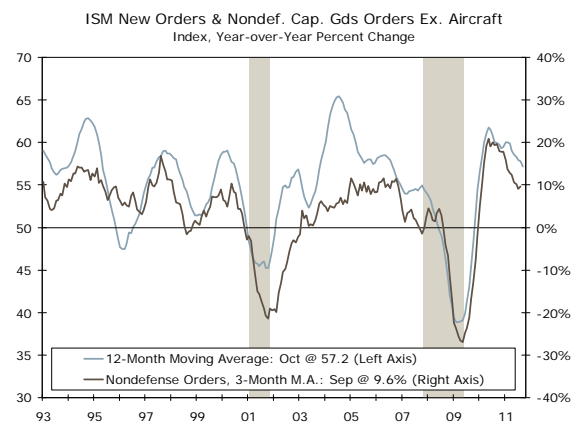
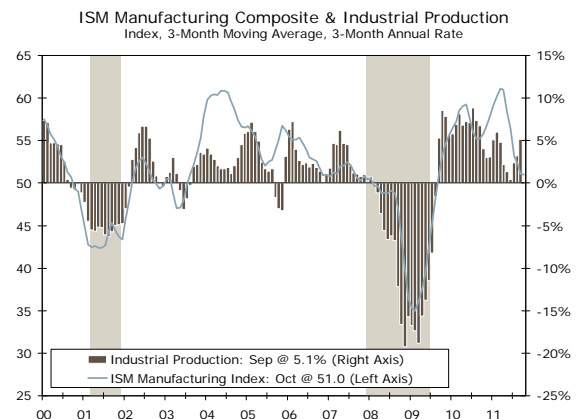
New orders (middle chart) broke above breakeven at 52.4 in October, suggesting that there is continued support for gains in manufacturing production in the months ahead. Eight industries reported growth in new orders, including primary metals, electrical equipment and computers. Since orders are a leading indicator, the rise in the index indicates continued growth for industrial production in the period ahead.

On the trade side, the new export orders component was at breakeven (50.0), indicating a flat trend in orders from foreign buyers. Five industries reported a gain in export orders. This result suggests many manufacturing industries continue to 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 fell sharply in October to 41.0 from 56.0 in September, which indicates input price pressures are declining and is a good sign for corporate profit margins (bottom chart). Only two of the 18 sectors reported higher prices paid. Commodities up in price include aluminum and steel.

For inflation, the complete pass-through of rising commodity prices to consumer prices appears to be moderating, but there certainly continues to be some elevation in prices. For decision makers in the private and public sectors, the continued higher, but not accelerating, pace of inflation remains a challenge to margins.



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