ISM Signals a Slowing in Pace of Manufacturing Expansion

The ISM manufacturing report was a mixed bag: the pace of layoffs is slowing and production remains steady for the most part, but the pipeline is slowing as orders dropped sharply. Price pressures are building.

Small Miss on the Headline, Bigger Miss on Orders
- The headline index came in at just 55.4, a slightly slower pace of expansion than the 56.0 level a month earlier. In our view, the biggest disappointment is the 7.4-point drop in the new orders component. This key leading indicator slipped to 60.2 from 67.6 in August.
- The production subcomponent slipped only slightly to 61.0 from 63.3 as output is still making up for lost time from the shutdown.

Signs of Price Pressure and Slower Pace of Layoffs
- The prices component stood out as it moved even further into expansion territory, rising to 62.8 from 59.5 previously.
- The employment measure also rose 3.2 points, but at 49.6, it remains in contraction territory. Although a slower pace of layoffs is a relative improvement, what the economy could really use is an increase in hiring in the factory sector as the post shutdown rehiring boom is clearly fading.

Source: Institute of Supply Management and Wells Fargo Securities