HIGHLIGHTS

- The ISM manufacturing index posted another increase in September, moving from 55.7 to 56.2, its highest level since April 2011.
- Seven of the ten components increased in September, with the order backlog (+3.0 points) and inventories (+2.5 points) posting the biggest advances.
- The employment component rose by 2.1 points, to 55.4, its highest level since June 2012.
- Prices paid were up 2.5 points, to 56.5.
- The components that lost some ground were new orders, exports and imports.

COMMENTS

While the partial shutdown of federal government operations in the United States has reduced the release of economic indicators to a trickle, the data from the private sector is more important than ever. Such is the case with the ISM manufacturing index, which brings us good news for the fourth consecutive month. The increase itself is surprising, since consensus expectations had called for a pause or even a slight pullback. The situation in the manufacturing sector, which has been battered at the beginning of the year, continues to improve.

The ISM manufacturing index is shifting further away from the 50 mark—the threshold between growth and contraction in manufacturing activity. That this index dipped slightly below this mark last May is worth noting. Successive increases since then point to improved growth.

The decline of 2.7 points in the new orders component is not really worrisome, as it follows on the heels of an overall increase of 14.4 points for the three previous months. At 63.2 in August, new orders were expected to take a bit of a break. The level of 60.5 recorded in September still points to solid growth in business investment.

After 14,000 new manufacturing jobs were created in August (after five months of declines), the increase of 2.1 points in the “employment” component bodes well for September’s figures. That said, we will have to wait until the federal government’s shutdown is behind us before the results of the next report on the U.S. job market are released.

Implications: While this new fiscal policy crisis has pushed concerns up a notch, the good news about the ISM manufacturing index is indeed welcome. This increase points to growth in the private sector. We can only hope that the fiscal policy juggernaut in Washington won’t drag on and create negative consequences that will ripple through the rest of the U.S. and the global economy.

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Sources: Institute for Supply Management and Desjardins, Economic Studies