

October 1, 2014

## UNITED STATES

### Manufacturing ISM tumbled in September

#### HIGHLIGHTS

- The ISM manufacturing index fell from 59.0 to 56.6 in September.
- Eight of the ten sub-indices contracted in September. The main decreases stem from new orders (-6.7 points) and order backlogs (-5.5 points).
- The employment sub-index retreated 3.5 points.
- Prices paid added 1.5 points, going to 59.5. Current production is the other sub-index on the rise (+0.1 point).

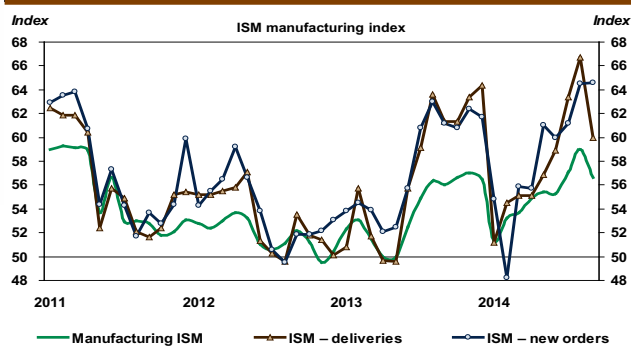
#### COMMENTS

Given the high level in recent months, a slip in the ISM manufacturing index was expected for September. At 59.0, the index had been in a barely sustainable zone for several months. In addition, movement of several regional manufacturing indexes suggested a slight decrease in the manufacturing ISM.

The decrease is larger than expected, however. The consensus had been calling for a retreat to 58.5 only. The lowest forecast among the consensus was 57.0. The ISM adds to other more disappointing data recently released, notably employment in August, the September fall in the Conference Board consumer confidence index and a new retreat in house prices in July. And this does not include the less-than-stellar news coming out of the euro zone or China.

However, it is important to remember that at 56.6, the manufacturing ISM is still at a very good level, which would be the envy of several countries where the PMI indexes are much lower and often flirt with the 50-point bar, below which signals a contraction in manufacturing. One of the main reasons for the lower ISM is the 6.7-point drop in the new orders component. But it is still at 60.0, a level that continues to be fully compatible with very strong growth in business investment. The current production index increased to 64.6 in September, signalling solid growth in manufacturing output in the very short term. At 54.6, the

#### Despite September's fall, the manufacturing ISM remains high



Sources: Institute for Supply Management and Desjardins, Economic Studies

employment component is at a level that gives hope for a number of new hires among manufacturers. The drop in components associated with business inventories, while new orders remain high, is rather encouraging for future production.

**Implications:** Despite a larger-than-expected drop, the manufacturing ISM remains at a high level and continues to suggest strong U.S. economic growth. We have to hope that the non-manufacturing ISM, to be released on Friday, will be as strong.

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