The ISM manufacturing index climbs back above the 50 mark

HIGHLIGHTS

- The ISM manufacturing index rose in September, from 49.4 to 51.5.
- Eight of the ten sub-indexes gained ground. The main increases came from new orders (+6.0 points) and backlog of orders (+4.0 points). The production index climbed by 3.2 points. The employment index gained 1.4 points, reaching 49.7.

COMMENTS

The August slump in the ISM indexes, and more particularly the drop by the manufacturing index below the 50 threshold, which marks the difference between growth and contraction, generated some concerns about the strength of the U.S. economy. Thus the upward movement by the ISM manufacturing index is good news, making it clear that the August drop was temporary and atypical.

We are particularly encouraged by the robustness of the new orders index. The six-point gain brushes off any concerns that had been sparked by the underperformance in August. At 55.1, the index is high enough to suggest a healthy acceleration in business investment. The upturn in the backlog of orders component also bodes well for future production, although at 49.5, that index is still slightly below the 50 mark.

Another component that is still languishing below the 50 mark is employment. The gain from 48.3 to 49.7 is encouraging, but that level is not high enough to suggest any sustained acceleration in hires in the manufacturing sector.

Implications: The September upturn in the ISM manufacturing index bolsters the conviction that real GDP growth has accelerated in the third quarter. It goes hand in hand with the good showing in consumer confidence, and now we can only hope that the non-manufacturing ISM (to be released on Wednesday) will fall in line with these positive developments. Higher ISM readings between now and the end of the year would make life easier for the Federal Reserve, which should decide on a key interest rate hike in December.

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