



TD Economics

November 3, 2014

Data Release: Manufacturing sector steams ahead in October

- The Institute for Supply Management (ISM) manufacturing index rose by 2.4 to 59 in October, matching its August high and beating market expectations for a mild pullback in the headline index.
- Most sub-components experienced increases, with new orders (+5.8) and backlog of orders (+6.0) exhibiting particular strength. Production (+0.2) and employment (+0.9) sub-indices increased only slightly, but remain solidly in expansionary territory.
- Prices (-6.0) and exports (-2.0) were the only two sub-components that declined during the month.
- The spread between new orders and inventories – which leads the headline index by about three months – rose sharply to 13.3, indicating that further strengthening in the ISM is likely.

Key Implications

- This was unquestionably a solid report. Its strength is somewhat surprising in light of the relatively soft results from regional manufacturing surveys. However, the scope of the gains across a broad array of sub-indexes and the solid rise in the new order to inventory spread point to a broad and sustained acceleration in activity.
- This view is further corroborated by the fact that sixteen of the eighteen industries indicated expansion, while only one – petroleum and coal products – reported an outright contraction in activity.
- The decline in petroleum & coal may be related to the sharp pullback in oil prices in recent weeks. The slump in commodity prices has also shown up in the large decline in the prices paid sub-component. However, comments from survey respondents indicated that the declines in raw material prices were beneficial to their business.
- Global growth appear to also be manifesting on U.S. producers with the export order falling for the second month in a row. The UK PMI saw a sharp acceleration last month, but other Eurozone PMIs are largely trading water. This will continue to provide a headwind for U.S. exporters alongside a higher dollar. Nonetheless, coupled with lower raw material prices and solid domestic demand, U.S. manufacturing should continue to expand at a good clip.

Michael Dolega, Senior Economist

DISCLAIMER

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.