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 treading 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