

# Manufacturing expansion moderates

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## ISM signals expansion, but still a disappointment

The ISM manufacturing index dropped marginally, to 52.6 in September from 52.9 in August. The consensus was looking for an improvement to 54.0. So, we would describe today's number as a disappointment. Still, at a level of 52.6, manufacturing activity is expanding and we have not seen back-to-back monthly expansions in manufacturing since the end of 2007.

## Job losses moderating at an excruciatingly slow pace

We know the focus is on employment ahead of tomorrow's nonfarm payroll report, so we'll start there. Today's ISM index showed that job losses are moderating at an excruciatingly slow pace. The employment index was basically flat, at 46.2 in September from 46.4 in August. We maintain our nonfarm payroll estimate of -150K for September, with the unemployment rate going to 9.8%.

## Details pretty much mirror the headline

The rest of the details in this report pretty much mirrored what the headline told us – an expansion, albeit not as robust as the month before. New orders dipped to 60.8 in September from 64.9 in August. Production hooked down to 55.7 from 61.9 in August – but that's still the fourth consecutive monthly expansion. Inventories continue to contract, but improved to 42.5 from 34.4 in August. That inventories are rising at a time that orders are falling would normally cause concern, but it does appear that demand is holding up. The supplier deliveries component jumped to 58.0 in September from 57.1 in August. When this metric rises, it means demand is so great that it takes firms an increasing amount of time to get goods out the door. Order backlogs also improved to 53.5 in September from 52.5 in August – the highest since June 2007.

## Global trade flows continue to improve

The export orders index continued to flag expansion, at 55.0 in September from 55.5 in August. And, imports rose to 52.0 from 49.5 in August. That's the first time we have seen an import expansion since January 2008, indicating a somewhat improved domestic demand backdrop and welcome news for the export-oriented economies in Asia.

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