

October 2018 ISM MF Index, UI Claims, Q3 Productivity, Sept. Construction Spending Manufacturing Conditions Still Positive

- The ISM Manufacturing Index for October slipped to a still-positive 57.7 percent.
- Productivity increased at a 2.2 percent annualized rate in the third quarter.
- Construction Spending in September was unchanged.
- Initial Claims for Unemployment Insurance eased by 2,000, to hit 214,000 for the week ending Oct. 27.

The ISM Manufacturing Index slipped from a strong 59.8 in September to a still-good 57.7 in October. History shows that the index usually does not stay at or above 60 for very long. The enduring strength that we have seen in the manufacturing index since August 2017 is unusual. Nine out of ten sub-indexes are still above the break-even 50 mark, including new orders, production and employment. This indicates that most manufacturers are still enjoying positive conditions. Customers' inventories remain lower than expected. Of the 18 reporting industries, 13 said that they expanded in October. The four industries that reported contraction were wood products, primary metals, nonmetallic products and fabricated metal products. A cooler construction industry comes to mind as a possible common factor for those four contracting industries. Tariffs are still a focus of the anecdotal comments in the October report.

Nonfarm business productivity increased at a 2.2 percent annual rate in the third quarter, below the 3.0 percent annualized gain of the second quarter. On a year-over-year basis, productivity was up by 1.3 percent in 2018Q3 over 2017Q3. The year-over-year gain of 1.3 percent is about where productivity growth has been since the end of 2016. Unit labor costs increased at a 1.2 percent annualized rate in Q3 after declining at a 1.0 percent rate in Q2. Productivity growth remains weak in this expansion. To say it another way, businesses are still relying, to a large extent, on increasing employment to expand output, and relying relatively less on investment in machines and software. As available labor becomes even scarcer moving forward, this will become a more challenging method of expanding output.

Total construction spending for September was unchanged from August. Private residential construction spending increased by 0.6 percent for the month, with help from multifamily projects. Private nonresidential spending was little changed, up by 0.1 percent in September. Public construction spending fell by 0.9 percent for the month. Over the previous 12 months overall construction spending is still up by 7.2 percent.

Labor market indicators continue to show very tight conditions. Initial claims for unemployment insurance were little changed, easing by 2,000 for the week ending October 27, to hit 214,000. Continuing claims fell by 7,000, to hit 1,631,000 for the week ending October 20.

Market Reaction: U.S. equity markets are positive. The yield on 10-Year Treasury bonds is down to 3.14 percent. NYMEX crude oil is down to \$63.74/barrel. Natural gas futures are down to \$3.28/mmbtu.

MF Conditions Still Good ISM-MF and ISM Non-MF Indexes



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