

ECONOMIC UPDATE



REGIONS

November 3, 2025

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October ISM Manufacturing Index: Different Month, Same Story

- The ISM Manufacturing Index fell to 48.7 percent in October from 49.1 percent in September
- The new orders index rose to 49.4 percent, the production index fell to 48.2 percent, and the employment index rose to 46.0 percent

The ISM Manufacturing Index fell to 48.7 percent in October, below what we and the consensus expected, marking the eight straight month and the thirty-fourth of the past thirty-six months in which the headline index has been on the wrong side of the 50.0 percent break between contraction and expansion. The reality, however, is that the headline index has been little changed over most of this longer period, bouncing within a fairly narrow range, which has been the case with most of the component indexes beneath the headline number. As such, rather than thinking about the manufacturing sector as being trapped in a steady contraction, we see it more as activity in the manufacturing sector having stabilized around a fairly low level. This is also the signal being sent by the data on manufacturing output in the monthly industrial production reports. That said, the monthly data on core capital goods orders had, prior to the break in the data brought on by the government shutdown, offered some hopeful signs, with growth in core capital goods orders having begun to broaden out from a heavy concentration in information processing equipment. Whether, or to what extent, that is still the case won't be known in full until the shutdown is resolved. Until then, what have for months been the main underlying themes of ISM's monthly surveys, i.e., tariffs and uncertainty, show few signs of giving way, and unless and until that is the case, it seems unlikely that the ISM's headline index will break out of its narrow range any time soon.

Only four of the eighteen broad industry groups included in the ISM's survey reported growth in October, compared to six in September and eight in August. As has been the case for the past several months, comments from survey respondents relayed by ISM are dominated by tariffs and the uncertainty around pricing resulting from what seems to be a constantly shifting tariff regime. Specific citations of China's export controls on rare earths and semiconductors and U.S. agricultural exports being adversely impacted by trade tensions could be addressed by last week's agreement, or at least temporary truce, between the U.S. and China, but only time will tell. For now, though, survey respondents continue to express frustration over the degree to which uncertainty and higher costs stemming from tariffs make it difficult to manage their business, as they are impacting production costs and final demand.

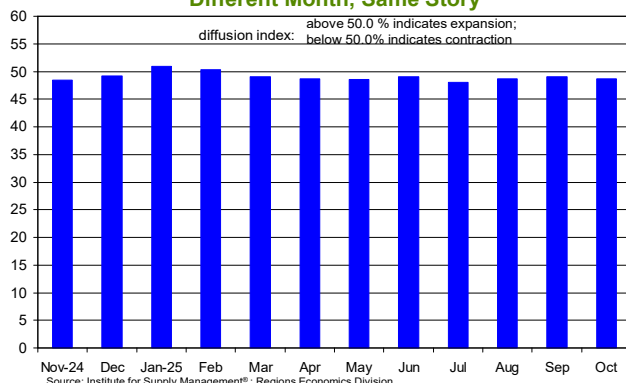
To our point about the difference between steadily contracting activity and activity stabilizing around a fairly low level, we'll again note that the firm level responses show that in any given month sizable majorities of firms report no changes in orders, production, and employment. It is the split between those firms who do report changes, higher or lower, that drive the diffusion indexes that are the basis on which the ISM reports its survey data. This isn't to dismiss the reads on the diffusion indexes, but rather to help better interpret what the survey results may be saying about conditions in the factory sector.

The new orders index rose to 49.4 percent in October from 48.9 percent in September. The ISM's new orders index has mostly been stuck below the 50.0 percent threshold for more than two years, with an occasional print to the upside, but of late this has been at odds with the firmer tone of the Census Department's data on core capital goods orders. The production index slipped from 51.0 percent in September to 48.2 percent in October, but this seems little more than a continuation of the up-and-down within a fairly narrow range nature of this index seen for some time now. The employment index edged higher, from 45.3 percent in September to 46.0 percent in October, but ISM notes that firms remain focused on managing head counts, including not filling open positions, in response to a highly uncertain near-term demand outlook. Of what we consider the three most important sub-indexes – orders, production, and employment – it is the employment index that will likely be the last to come around when conditions in the factory sector do begin to improve, as firms will initially respond to stepped-up demand by focusing on greater efficiency before committing to adding to head counts.

Upward pressures on input prices remain intense and broadly based, with ISM pointing to higher prices for steel and aluminum that filter through the entire supply chain. An often overlooked point is that roughly one-half of all imports into the U.S. are raw materials or intermediate goods used in domestic production of final goods. In many cases, manufacturers cannot simply pass along the entire burden of higher tariff costs, leaving firms to choose between margin preservation or cuts in operating costs that could be reflected in lower head counts and/or lower capital outlays.



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