Economic Update

October 1, 2024

The U.S. Manufacturing Sector Contracts Again in September but Relief Is on The Way

- The ISM Manufacturing PMI was unchanged at 47.2 in September, marking the sixth consecutive month of contraction.
- The New Orders Index inched up 1.5 points but remains in contraction territory; the Production Index jumped 5 points to just below the break-even level of 50.0.
- The Employment Index dropped 2.1 points to 43.9, suggesting manufacturing firms shed jobs in September.
- The Prices Paid Index fell into contraction territory for the first time this year.
- There is relief on the way for the rate-sensitive manufacturing sector with PNC expecting the FOMC to cut rates two more times this year and four times in 2025.
- The dockworker strike is expected to have a limited impact on the U.S. economy.

The U.S. manufacturing sector continues to struggle under the weight of high (though declining) interest rates. The ISM Manufacturing PMI was unchanged at 47.2 in September, marking the sixth straight month below the 50 level that separates expansion and contraction. Moreover, the manufacturing sector has been in contraction territory for 22 of the last 23 months amid high interest rates and elevated inflation. The New Orders Index improved 1.5 points to 46.1 but remains below the break-even level, while the Production Index jumped five points to 49.8, approaching expansion territory. Conversely, the New Export Orders Index fell 3.3 points to 45.3 and the Imports Index remained in contraction territory at 48.3, down from 49.6 in August.

In a welcome development for the Fed as it seeks to push inflation lower, the Prices Paid Index fell into contraction territory for the first time this year, registering 48.3, down 5.7 points from August. The Backlog of Orders Index rose 0.5 points but remains depressed at 44.1, suggesting weak demand for manufactured goods. Similarly, the Employment Index printed at 43.9—down 2.1 points from August—implying manufacturers shed jobs in September. Finally, the Supplier Deliveries Index climbed 1.7 points to 52.2, pointing to slower delivery times.

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Although high interest rates have battered the rate-sensitive U.S. manufacturing sector, there is relief on the way. The Federal Open Market Committee cut the federal funds rates by 50 basis points last month and PNC expects two additional 25 basis point cuts at the November and December meetings, with four more identical cuts during the first half of 2025, bringing the fed funds rate down to a range of 3.25-3.50% by the middle of next year. Lower interest rates will spur economic growth next year, supporting stronger goods demand and an expansion in manufacturing.

In a related development, a massive dockworker strike at seaports on the East and Gulf Coasts could snarl global supply chains and weigh on U.S. economic growth. The International Longshoremen's Association (ILA), which represents about 45,000 workers, went on strike today for the first time in nearly half a century. The strike impacts 14 ports stretching from Maine to Texas that process over 40% of the containerized goods entering U.S. ports. While this could result in a shortage of certain goods and push prices temporarily higher, the strike is only expected to last a week, thereby limiting the economic impact. Any lost output would likely be made up after the strike is settled.

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