

United States

Official data confirm manufacturing rebound at start of fourth quarter

- **October's 0.2% drop in industrial production masks 0.4% jump in manufacturing output**
- **Official data confirms upturn in Markit PMI survey, and contrasts with weak ISM data**

US industrial production fell 0.2% for a second successive month in October, but the decline clouds a more upbeat picture of the health of the country's factories.

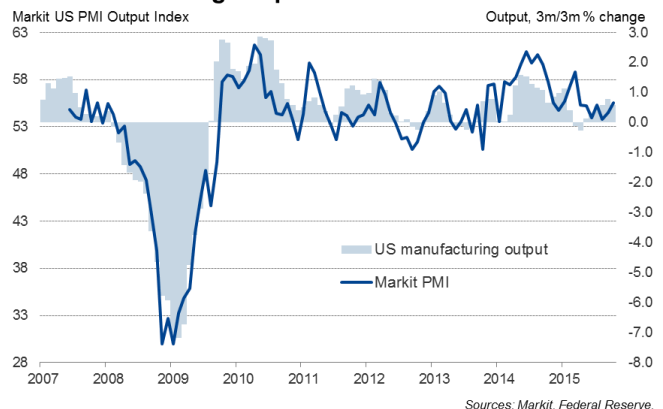
The industrial production numbers from the Federal Reserve are based on the output of various sectors, including mining, utilities and manufacturing. However, both mining and utilities have been hit this year by the slump in global demand for commodities and the accompanying steep fall in prices, notably for oil, but factories are faring better. While mining saw a 1.5% drop in production, and output of the utilities sector slumped 2.5%, manufacturers saw a 0.4% rise.

The upturn in manufacturing, with October seeing the largest monthly gain for six months, contrasts with 0.1% declines in each of the prior two months, and leaves factory output up 0.6% in the latest three month period compared with the prior three months. This matches the solid trend seen in the Markit US Manufacturing PMI survey, where the Output Index rose from 54.5 in September to a seven-month high of 55.6 in October, which is broadly in line with the survey's average of 55.7 seen over the past six years.

A divergence between the Markit and ISM surveys in recent months sends strikingly different signals to policymakers mulling over whether the US economy is ready for interest rates to start rising. While both the Markit PMI and official data signal a strong start to the fourth quarter for US manufacturing, the ISM survey data signalled one of the weakest increases in manufacturing output since the recession. The ISM Output Index registered 52.9, well below the past six years' survey average of 57.5.

The recent divergence also enhances the Markit survey's track record in accurately anticipating official data. At 92%, the correlation between the Markit US Manufacturing PMI Output Index and official output data (as measured by the three month growth rate) exceeds the 86% correlation observed for the equivalent ISM index.

US manufacturing output v Markit PMI



US manufacturing output v ISM



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