# ISM Manufacturing Index Fell in September; Remains in Expansion

## Headlines

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- **The Institute for Supply Management (ISM) Manufacturing Purchasing Managers Index (PMI) fell modestly in September 2026, a second consecutive monthly decline.**
- **The index remained above the 50 mark that indicates expansion for the ninth straight month.**
- **Manufacturing hiring was a bright spot in the September 2026 report, rising to near the four-year high reached in July.**
- **Commodity prices spiked in September 2026 after trending downward from oil price-induced highs since May.**
- **New orders rose while production and backlog of orders fell in September 2026, all supporting the same narrative of solid demand but rising cost pressures.**
- **Construction spending rose 0.9% in August.**

## Details

**The ISM Manufacturing PMI fell for a second consecutive month in September 2026,** posting a result of 54.5 (see Figure 1). U.S. manufacturing has rebounded strongly in 2026 after enduring outright contraction for most of the three years prior. September's decline was small, with only a 0.1 index point loss for the month.

The employment and new orders components both increased, consistent with ongoing demand growth. But prices paid and current production fell, marking the reality that meeting ongoing demand continues to require difficult planning decisions.

The ISM Manufacturing PMI is a diffusion index that measures the net share of manufacturers reporting improving versus deteriorating conditions across a range of business activities. Readings above 50 indicate expansion in manufacturing activity. **September's reading of 54.5 marked the ninth consecutive month above the expansionary threshold of 50.** Four of the five components used to calculate the overall index were above 50 in September, with only inventories in contraction. Three rose over the month--new orders, employment, and supplier deliveries--while production and inventories fell.

Over the past several years policy developments have heavily influenced manufacturing activity. More recently, however, firms appear to be responding increasingly to underlying supply and demand fundamentals. Higher interest rates will weigh on demand growth over the coming year. After raising the federal funds rate by 25 basis points in September, PNC expects the Federal Open Market Committee to raise the rate by an additional 50 basis points through the first quarter of 2027. This would take the rate to a range of 4.25% to 4.50% by early spring.

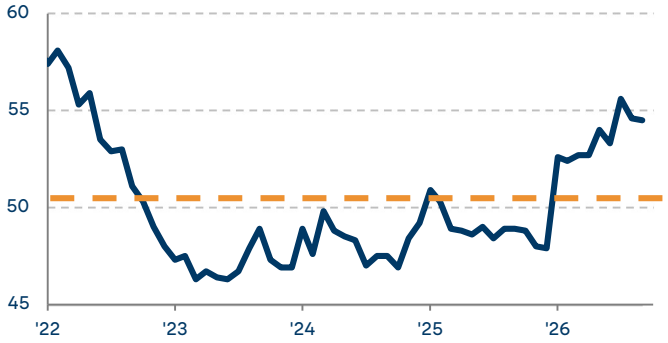
**New orders remain strong,** according to the ISM Manufacturing survey, rising to 55.3 in September from 53.7 in August. The new orders component has been above 50 every month in 2026. At the same time elevated input costs and expected moderation in demand growth could limit firms' willingness to expand capacity. There is an element of catch-up at play, though, with hesitancy across the U.S. manufacturing base given the past two years' tariff policy uncertainty; this is illustrated by persistent strength in the survey's backlog of orders sub-index over the past year.

Between the conflicting influences of past under-expansion, current growth and the potential for a future slowdown, U.S. manufacturers have to walk a very fine line in balancing supply and demand over the next year.

The ISM Manufacturing survey reported that hiring in the sector continued its upward trend in September. The Employment component of the survey rose to 52.7 for the month, retaking most of August's decline to 51.2. The employment sub-index has posted results above the breakeven level of 50 for three consecutive months. This trend aligns with Bureau of Labor Statistics employment data showing seasonally adjusted manufacturing employment rising for three consecutive months through August, and it now sits only 0.2 point below its March 2025, pre-"Liberation Day" level (see Figure 2).

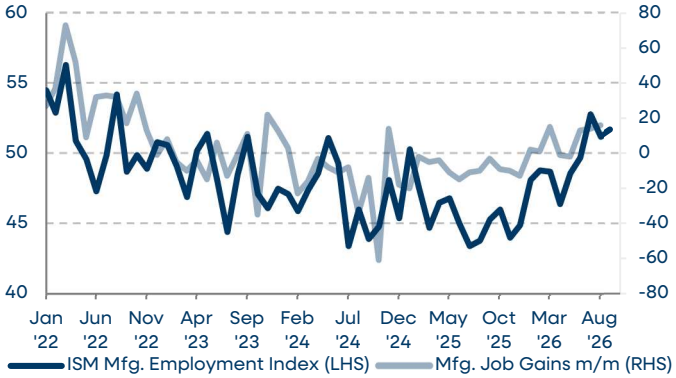
Construction spending rose 0.9% in August from July, according to the Census Bureau. Private residential spending rose 1.1%, despite high mortgage rates, while private nonresidential spending rose 1.0%. Public spending rose 0.2%. Data centers remain a key source of strength in construction spending.

**Figure 1:** ISM manufacturing index (SA)




Sources: ISM, PNC

**Figure 2:** ISM mfg. employment index (SA) and mfg. payroll gains (thousands, m/m, SA)




Sources: ISM, BLS, PNC

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