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December ISM Manufacturing Index: A Weak End To A Year To Forget

- › The ISM Manufacturing Index fell to 47.2 percent in December from 48.1 percent in November
- › The new orders index fell to 46.8 percent, the employment index fell to 45.1 percent, and the production index fell to 43.2 percent

The ISM Manufacturing Index fell to 47.2 percent in December, below our forecast of 49.4 percent, marking the fifth consecutive month in which the headline index was below the 50.0 percent break between contraction and expansion. The details of the December data are even more dour than the headline index suggests, with the key gauges of new orders, production, and employment each slipping further. Though we expected the ISM's headline index to remain below 50.0 percent in December, we did expect the underlying details to at least show some improvement, in keeping with other indicators of activity in the factory sector. This did not prove to be the case, however. Some are pointing to Boeing's decision to halt production of the 737 Max as having contributed to the weak ISM number, but the timing of that announcement came late enough in the month that it seemed, at least to us, unlikely to have impacted the December data. Though there were some encouraging details on the trade front as 2019 came to a close, there are no visible signs of that in the ISM's December data. As 2020 begins, then, while there have been signs that global manufacturing activity is at least stabilizing, the domestic manufacturing sector remains a large question mark.

In our weekly *Economic Preview* we stated that, for us, the most important number in the ISM's December data would be the number of industry groups reporting growth in activity. Recall that in September, only 3 of the 18 industry groups included in the ISM survey reported growth in activity, the fewest in any month since April 2009, when the economy was still in the clutches of the 2007-09 recession. That number improved slightly in October, with 5 industry groups reporting growth, and held there in November. Our premise was that if conditions in the domestic manufacturing sector were indeed stabilizing or even improving slightly, that would be visible in a larger number of industry groups reporting growth. Needless to say, then, we find it a rather discouraging sign that only 3 of the 18 industry groups – Computer & Electronic Products, Food, Beverage, & Tobacco Products, and Miscellaneous Manufacturing – reported growth in December while 15 industry groups reported contraction. It follows that comments from survey respondents were mostly downbeat, with several pointing to softness in sales/orders. On an annual average basis, the headline index and the index of new orders were weaker in 2019 than in any non-recession year in the life of the current series, which dates back to 1998. Though the headline index remains above the 42.9 percent baseline ISM states is consistent with the broader economy continuing to expand, it is a bit unsettling that, as 2019 came to a close, the headline index was moving closer to, rather than further from, that benchmark.

New orders contracted for a fifth consecutive month in December, with 3 of the 18 industry groups reporting growth in orders and 12 reporting declining orders. We've long looked to the index of new orders as a reliable leading indicator; that the index is still pointing to declining orders bodes poorly for production and employment in the factory sector over coming months. That is only reinforced by what was a further decline in the backlog of unfilled orders in December. The ISM's gauge of production slipped to 43.2 percent in December, the lowest since April 2009 and marking the fifth straight month of falling production. Three of the 18 industry groups reported higher production in December, with 14 reporting lower production. The employment index fell to 45.1 percent in December, with only 2 industry groups reporting higher employment, marking a fifth straight month of declining employment. Still, the ISM's index is at odds with the data from the monthly employment reports, which show that, excluding motor vehicles & parts production, manufacturing employment rose, even if only modestly, through 2019. The index of new export orders fell in December, extending a sharp and sustained decline since the ISM's gauge of new export order flirted with an all-time high in early 2018. While progress in trade talks with China offers hope that conditions in the factory sector will begin to stabilize over coming months, a return to robust growth seems much further away.

