ECONOMIC UPDATE

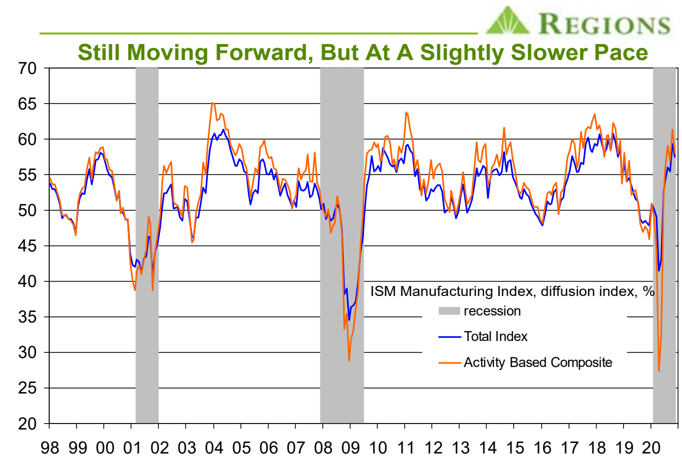
REGIONS

December 1, 2020

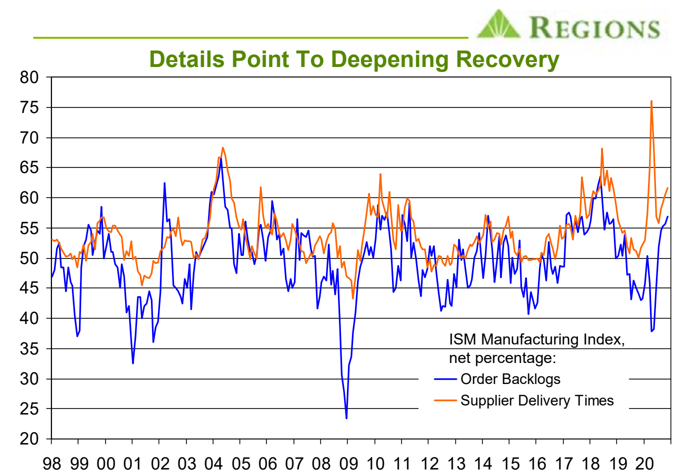
November ISM Manufacturing Index: Still Moving Forward, But At A Slightly Slower Pace

- The ISM Manufacturing Index fell to 57.5 percent in November from 59.3 percent in October
- The new orders index fell to 65.1 percent, the employment index fell to 48.4 percent, and the production index fell to 60.8 percent

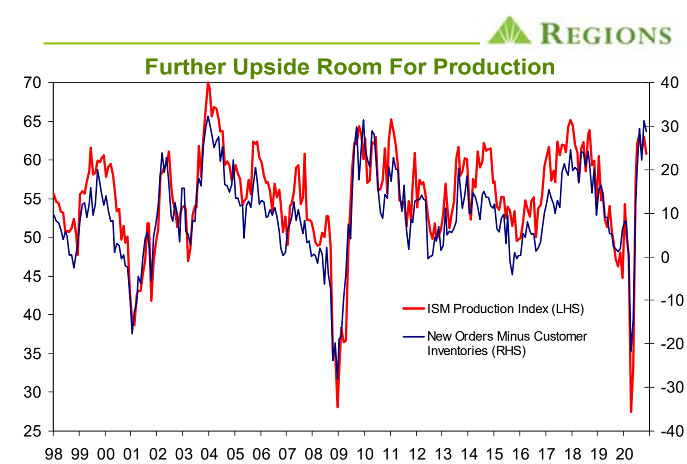
The ISM Manufacturing Index fell to 57.5 percent in November, below what we (59.1 percent) and the consensus (58.0 percent) expected but nonetheless consistent with further expansion. The ISM's gauge of employment tumbled from 53.2 percent in October to 48.4 percent in November, which seems to be more related to the ongoing spike in COVID-19 cases than a deterioration in demand. Either way, this decline took a little more than a point off of the headline index. The details on new orders, current production, order backlogs, new export orders, and supplier delivery times all square with continued growth in the factory sector that is becoming deeper and more entrenched. While the pace of the expansion is likely to slow in the months ahead, there is room for further growth, with the obvious caveat being that the ongoing upturn in COVID-19 cases poses some downside risk.



Sixteen of the 18 industry groups included in the ISM's survey reported growth in November, up from 15 in October, with two (petroleum and coal products, and printing/support activities) reporting contraction. Recall that in the April survey, only two industry groups reported growth, but in each of the past six surveys at least 13 industry groups have reported growth, which goes to our point about a broad based expansion in the manufacturing sector. Two themes stand out in the comments from survey respondents relayed by ISM. First, demand remains strong and is expected to strengthen further in 2021. Second, the rising COVID-19 case count is making it difficult for firms to add new workers and keep current workers on the job, with one respondent noting their firm has sent workers potentially exposed to the virus home to quarantine and has even had to shut down some production lines due to lack of staffing. Inefficiencies stemming from labor shortages are resulting in diminished productivity and raising the cost of goods sold.



The strength of demand is apparent in the ISM's gauge of new orders. After jumping to 67.9 percent in October, the highest level since January 2004, the new orders index settled back to a still-robust 65.1 percent in November, with 15 of the 18 industry groups reporting growth in new orders. The production index fell from 63.0 percent in October to 60.8 percent in November, with 14 of the 18 industry groups reporting higher output and only one – petroleum and coal products – reporting lower output. It could be that the staffing issues cited above held production down to lower levels than would otherwise have been the case. This may in turn have contributed to further growth in backlogs of unfilled orders in November, though it should be noted that order backlogs began rising in July and have gotten progressively larger with each passing month. In November, 12 industry groups reported larger order backlogs while 4 reported smaller backlogs. Another sign of growing stress is the further increase in the ISM's index of supplier delivery times, indicative of slower delivery times. Of the 18 industry groups in the ISM's survey, 16 reported slower supplier delivery times in November, which also could have acted as a drag on production. ISM notes that suppliers are also contending with labor shortages and COVID-19 issues. As noted above, pandemic-related issues contributed to the decline in the ISM's gauge of factory sector employment, which fell to 48.4 percent in November from 53.2 percent in October. It will be interesting to see whether there are any indications of this in the November employment report (due on Friday), either in terms of the level of employment or aggregate hours worked in the manufacturing sector.



An additional detail in the ISM data we look to as a leading indicator is the gap between the indexes of new orders and customer inventories. The vast majority of industry groups report customer inventory levels are too low, suggesting further gains in new orders and production in the months ahead, reinforcing the signal being sent by growing backlogs of unfilled orders. So, while the pace may slow, the ISM's data point to further expansion in the factory sector in the months ahead.

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