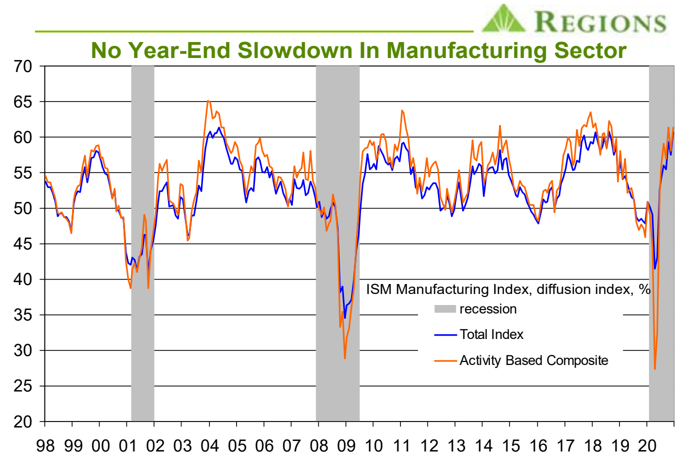
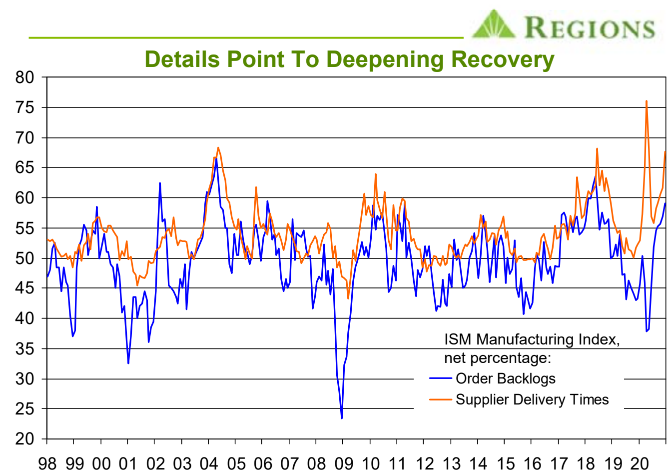
December ISM Manufacturing Index: No Year-End Slowdown Here

- The ISM Manufacturing Index rose to 60.7 percent in December from 57.5 percent in November
- The new orders index rose to 67.9 percent, the employment index rose to 51.5 percent, and the production index rose to 64.8 percent

The ISM Manufacturing Index rose to 60.7 percent in December, better than we and the consensus expected and marking the seventh consecutive month with the headline index above the 50.0 percent break between contraction and expansion. Even allowing for the boost to the headline index from slower supplier delivery times, the details of the December survey show the expansion in the manufacturing sector becoming more entrenched, and the labor supply issues that plagued firms in November were less pressing in December. The ISM's survey indicates that the factory sector rolled right along over the final weeks of 2020 even as the broader economy lost momentum. With order books growing faster than firms can fill them, output and employment in the manufacturing sector are poised for further growth in the months ahead.

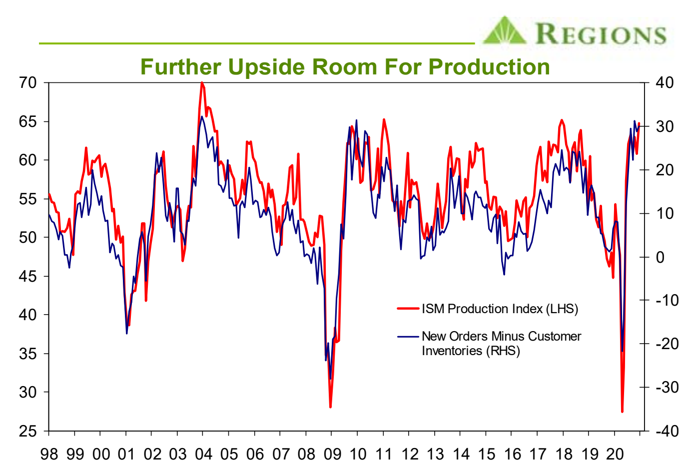


Sixteen of the 18 industry groups included in the ISM's survey reported growth in December, the same as in November, with two industry groups (nonmetallic mineral products, and printing/support activities) reporting contraction. Recall that in the April survey, only two industry groups reported growth, but in each of the past seven surveys at least 13 industry groups have reported growth, which goes to our point about a broad based expansion in the manufacturing sector. As in the November survey, 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 has made it difficult for firms to add new workers and keep current workers on the job, and is also impacting suppliers, which helps account for the sharp slowdown in delivery times reported in the December data. Still, ISM notes that for every "cautious" comment it received in the December survey, there were three positive comments.



The new orders index rose to 67.9 percent in December, the highest reading since January 2004, with 13 of the 18 industry groups reporting growth in new orders and three reporting a decline in orders. A separate gauge of new export orders, which does not enter into the calculation of the headline index, registered 57.5 percent in December, marking a sixth consecutive month of growth and pointing to further restoration of global trade flows. The ISM's production index rose to 64.8 percent in December from 60.8 percent in November, with 13 of the 18 industry groups reporting higher output and two reporting lower output. While the employment index rose to 51.5 percent in December after having fallen to 48.4 percent in November, only 8 of the 18 industry groups reported higher employment. As noted above, comments from survey respondents indicate high rates of absenteeism continue to hamper production.

The index of supplier delivery times rose to 67.6 percent in December, with 16 of the 18 industry groups reporting slower delivery times. This reflects not only strong growth in demand from manufacturers, but also suppliers contending with labor supply issues tied to rising COVID-19 case counts. Note that slower supplier delivery times added 1.2 points to the headline index in December. Still, our "activity based" composite of new orders, production, and employment rose to 61.4 percent in December, indicative of the underlying strength in manufacturing. Continued growth in new orders, slower supplier delivery times, and labor supply issues hindering production have all contributed to further growth in backlogs of unfilled orders. The ISM's gauge of order backlogs rose to 59.1 percent in December, and growing order backlogs suggest support for employment and output even should growth in new orders ease. 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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