

*This Economic Update may include opinions, forecasts, projections, estimates, assumptions and speculations (the “Contents”) based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.*

## October ISM Manufacturing Index: 2022 To Be Carbon Copy Of 2021?

- › The ISM Manufacturing Index fell to 60.8 percent in October from 61.1 percent in September
- › The new orders index fell to 59.4 percent, the employment index rose to 52.0 percent, and the production index fell to 59.3 percent

The ISM Manufacturing Index fell to 60.8 percent in October, between the consensus forecast of 60.5 percent and our forecast of 61.4 percent. October marks the 17<sup>th</sup> straight month in which the headline index was above the 50.0 percent break between contraction and expansion. Though remaining in expansionary territory, the index of new orders fell sharply in October, the biggest factor behind our miss on our forecast of the headline index, though we’re less concerned over the drop in the index of new orders than might be suggested by the magnitude of the decline. The details on input prices, supplier delivery times, and order backlogs suggest the supply chain and logistics bottlenecks that have hamstrung production over the past several months remain entrenched, and labor supply constraints also remain a bedeviling issue for U.S. manufacturers. In short, the story remains the same for domestic producers, which is that demand continues to grow more rapidly than firms are able to keep pace with.

Of the 18 industry groups included in the ISM’s survey, 16 reported expansion in October with two industry groups – wood products and nonmetallic mineral products – reporting contraction. The tone of comments from survey respondents was little changed in the October. While ISM reports that, regarding the outlook for growth, there were four positive comments for every “cautious” comment, when it comes to supply-side issues, the comments are decidedly less upbeat. Respondents report that demand remains strong, but shortages of materials, longer delivery times, and labor supply constraints leave them unable to keep pace with demand, leading to steadily growing backlogs of unfilled orders. One respondent from the plastics & rubber products industry group had a rather sobering prediction, which was that “2022 will be very similar to 2021 – similar demand, constrained supply, restricted logistics, and rampant inflation.” While most comments were not quite that ominous, neither did they suggest meaningful relief from supply-side constraints any time soon.

The new orders index fell from 66.7 percent in September to 59.8 percent in October, the lowest reading since June 2020 when activity was beginning to rebound from pandemic-related shutdowns, and the decline in the new orders index took more than one percentage point off of the headline index. Still, 14 of the 18 industry groups reported growth in new orders in October with only two industry groups reporting lower orders. The first point we’ll make here is that new orders are still growing, but at a slower pace in October than in prior months. Additionally, rather than presaging weakening demand for manufactured goods, October’s dip in the new orders index could be a sign that the combination of growing backlogs of unfilled orders and uncertain delivery times is leading some firms to hold off on placing orders until there is more clarity on delivery times. Clearly, this will be something to watch in the months ahead. The production index slipped to 59.3 percent in October from 59.4 percent in September, with only 10 of the 18 industry groups reporting higher output while four reported lower output. Production remains constrained by inadequate supplies of labor and raw materials, and ISM notes heightened labor turnover remains a negative trend. Still, the employment index pushed higher, rising to 52.0 percent in October from 50.2 percent in September, with 11 industry groups reporting higher job counts but six reporting decreases in employment. Order backlogs grew further, with October marking the 16<sup>th</sup> straight month of growing backlogs as 15 of the 18 industry groups reported larger backlogs. Even if new orders tail off more than we think likely, sizable backlogs of unfilled orders will keep manufacturers busy for some time.

Supplier delivery times slowed further in October, as all 18 industry groups reported further delays, consistent with the frustrations expressed in comments from survey respondents. At the same time, the prices paid index rose to 85.7 percent, with all 18 industry groups reporting paying higher prices for non-labor inputs. These two data points suggest that the respondent from the plastics & rubber products industry group may not be alone in expecting 2022 to look a lot like 2021.

