ECONOMIC UPDATE

REGIONS

December 1, 2022

November ISM Manufacturing Index: Fading New Orders Point To Further Contraction

- The ISM Manufacturing Index fell to 49.0 percent in November from 50.2 percent in October
- The new orders index fell to 47.2 percent, the employment index fell to 48.4 percent, and the production index fell to 51.5 percent

The ISM Manufacturing Index fell to 49.0 percent in November, a larger decline than our below-consensus forecast of 49.6 percent anticipated, ending a run of 29 months of expansion in the factory sector. That the headline index slipped below the 50.0 percent break between contraction and expansion in November is simply an extension of the trend that had been in place for some time, with the expansion in the factory sector having become slower and increasingly less broad based over the prior several months. New orders continue to contract, reflecting slower demand both here in the U.S. and abroad, while what had been sizable backlogs of unfilled orders have been worked down considerably, a combination that presages declines in employment and output in the manufacturing sector in the months ahead. Reflecting the sharp pullback in demand, prices for non-labor input prices fell further in November while supplier delivery times once again shortened. Though the ISM Manufacturing Index has not yet fallen to the level that would be consistent with a recession in the U.S. economy, the next several months will nonetheless be challenging for the manufacturing sector.

Only six of the eighteen industry groups included in the ISM's survey reported expansion in November, while twelve industry groups reported contraction. As we've noted, the expansion in the factory sector has been increasingly less broad based; in early 2021, it was routine for seventeen or eighteen industry groups to report growth each month, and as recently as this April seventeen industry groups did so. Since then, however, fewer and fewer industry groups have reported growth, and the December survey could show even fewer spots of growth. As might be expected, softening demand and increased uncertainty around the economic outlook are the dominant themes in comments from survey respondents relayed by ISM.

Not even friendly seasonal adjustment could save the new orders index, which fell to 47.2 percent in November, the fifth contraction in new orders in the past six months. Moreover, only one – apparel, leather, & allied products – of the eighteen industry groups reported growth in new orders in November, while fourteen industry groups reported lower orders. At the same time, November marks a second straight month of contracting backlogs of unfilled orders; while two industry groups reported larger backlogs, twelve reported smaller backlogs. As we've noted, shrinking order backlogs are relevant in that as long as they were sitting on material backlogs of unfilled orders, firms would have been somewhat insulated from slower growth, or declines, in new orders. But, with both new orders fading and backlogs being worked down (or orders having been canceled), the buffer that was helping preserve employment and production is rapidly fading. This bodes poorly for employment and production in the months ahead. The production index did manage to stay above 50.0 percent last month, at 51.5 percent, but it is more telling that only seven of the eighteen industry groups reported higher output in November while seven reported declines. At 48.4 percent, the employment index slipped back into contractionary territory in November, with seven industry groups reporting higher head counts and five reporting declines. ISM notes that while firms had been managing staffing levels via attrition and hiring freezes, layoffs are now being used to manage head counts amid weakening demand.

The prices paid index fell to 43.0 percent in November, marking a second straight month of falling prices for non-labor inputs. Only one of the eighteen industry groups reported paying higher input prices in November while ten reported paying lower prices. Note that price pressures in the broader services sector remain more intense than is the case in the factory sector. Supplier delivery times were faster in November, the second straight month in which delivery times improved but, as with easing price pressures, faster delivery times are mainly a reflection of the extent to which demand has softened. While the ongoing easing of input price pressures may be welcome news for the inflation outlook, that is has largely come about via fading demand will make no one feel better about the growth outlook.

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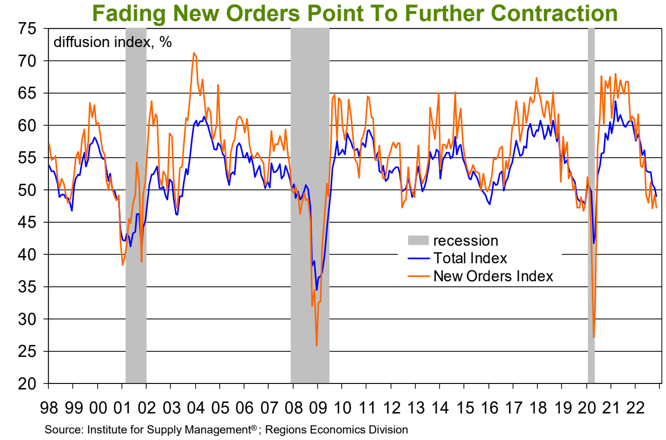
Fading New Orders Point To Further Contraction



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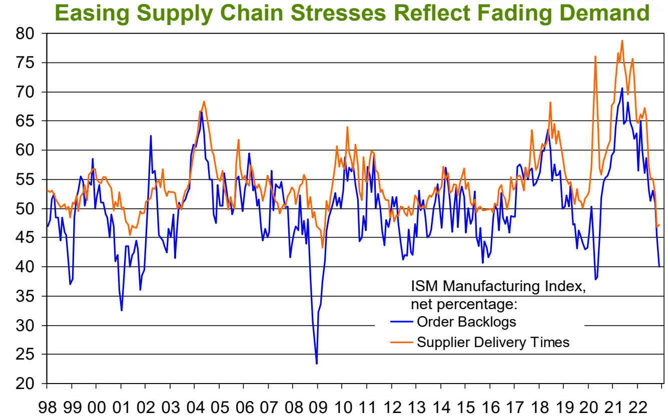
Easing Supply Chain Stresses Reflect Fading Demand



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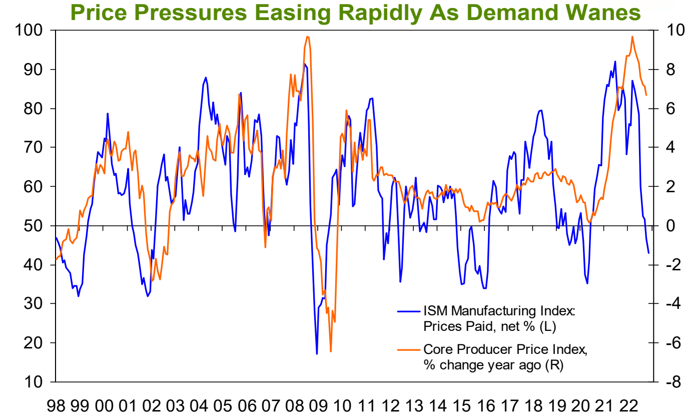
Price Pressures Easing Rapidly As Demand Wanes



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