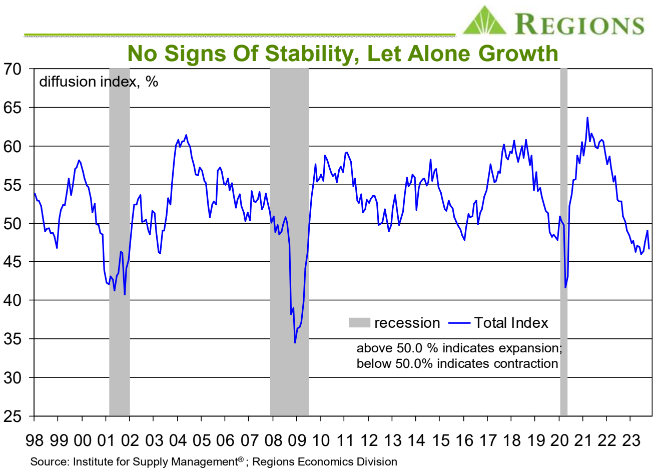
ECONOMIC UPDATE
REGIONS
November 1, 2023

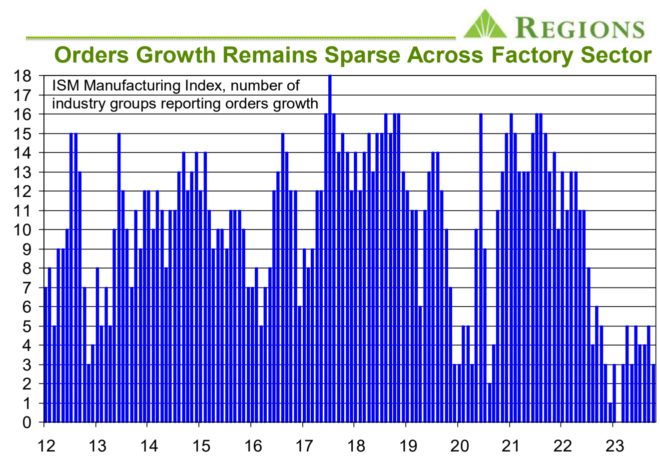
October ISM Manufacturing Index: Didn't Expect Good, But Didn't Expect This Bad . . .

- The ISM Manufacturing Index fell to 46.7 percent in October from 49.0 percent in September
- The new orders index fell to 45.2 percent, the employment index fell to 46.8 percent, and the production index fell to 50.4 percent

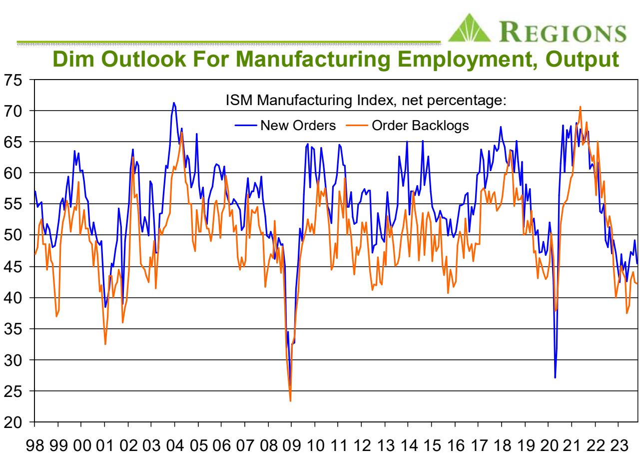
We'd say that we didn't see this one coming, but, apparently, no one else did either. The ISM Manufacturing Index fell to 46.7 percent in October, which is not only below our above-consensus forecast of 49.6 percent but is also well below the lowest forecast in the surveys we participate in. As we noted last month, we were a little bit suspicious of the September data showing the headline index had risen to 49.0 percent, and if that seems at odds with our having looked for the index to have risen further in October, our forecast was more a matter of our having expected conditions in the factory sector to have stabilized a bit which, as these things work, could easily have pushed the headline index a bit higher. Be that as it may, October marks the twelfth straight month in which the headline index was below the 50.0 percent break between contraction and expansion. The details of the October survey, particularly the indexes of employment and new orders, are as surprisingly weak as is the headline index, and this goes way beyond any potential knock-on effects of the UAW strike against the Big Three domestic producers. Along with uneven and volatile commodity prices, higher interest rates, a strong U.S. dollar, and listless global growth, the October survey results suggest that even stability within the manufacturing is not readily within reach.



Only two – food, beverage, & tobacco products and plastic & rubber products – of the eighteen industry groups included in the ISM's survey reported growth in October, down from five in each of the prior two months, while thirteen industry groups reported contraction in October. Comments from survey respondents were notably downbeat, with several referring to slowing conditions. It is interesting that one respondent from the primary metals industry group noted that, despite the impacts of the UAW strike, orders were expected to pick up over the final quarter of 2023. More than one survey respondent noted slimming backlogs of unfilled orders, which becomes increasingly problematic in terms of growth in employment and output the longer new orders continue to wilt on the vine.



After having risen to 49.2 percent in September, the new orders index sank to 45.5 percent in October and, even more notably, only three of the eighteen industry groups reported higher order volume while ten reported declines. We did note last month that part of September's increase owed to favorable seasonal adjustment, but other data pertaining to the factory sector had led us to expect some stabilization in new orders. Instead, a higher percentage of respondents reported lower orders in October than had done so in the September survey. As seen in our middle chart, the breadth of orders growth has been notably narrow for quite some time, far more so in the early phases of reopening and over the course of the expansion that prevailed in the years ahead of the pandemic. At the same time, order backlogs contracted further in October, the thirteenth straight month in which order backlogs thinned down. As we've often noted, contracting new orders and thinning order backlogs set up a weak profile for production and employment. That said, at 50.4 percent in October, the production index remains above the 50.0 percent threshold for growth, but that is more a quirk of diffusion indexes rather than a sign of actual growth, as more industry groups continue to report declines in production than report growth. To that point, the employment index reversed course in October, sliding to 46.8 percent from 51.2 percent in September, with four industry groups reporting higher head counts and ten reporting declines. In perhaps the most telling comment in the entire report, ISM noted layoffs, not hiring freezes or attrition, were the primary tool with which firms are managing head counts, "indicating a more urgent need to reduce staffing." That is obviously not a tool that firms looking for a near-term rebound in demand would be utilizing to an increasing degree.



To that point, inventories contracted further in October, the ninth straight month of contraction, which is another sign of a bleak demand outlook. An ongoing slide in export orders – down in fourteen of the past fifteen months – is reinforcing the dour outlook for demand. Input prices continue to slide, with weak demand affording buyers room to negotiate prices down further.

Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com