ECONOMIC UPDATE

REGIONS

December 1, 2023

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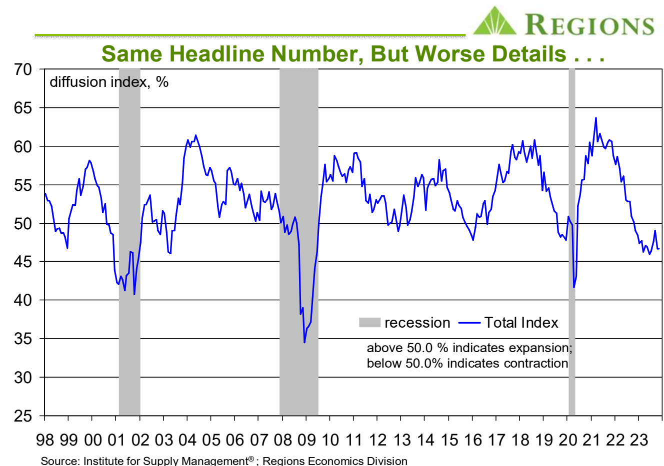
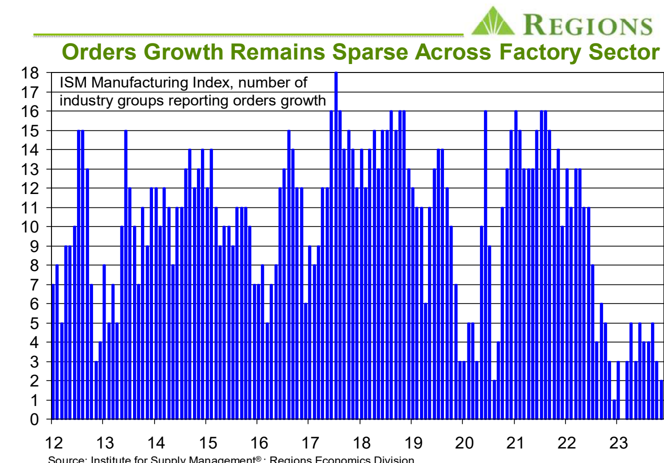
November ISM Manufacturing Index: Same Headline Number, But Worse Details

- The ISM Manufacturing Index was unchanged at 46.7 percent in November, marking a thirteenth straight month of contraction
- The new orders index rose to 48.3 percent, the employment index fell to 45.8 percent, and the production index fell to 48.5 percent

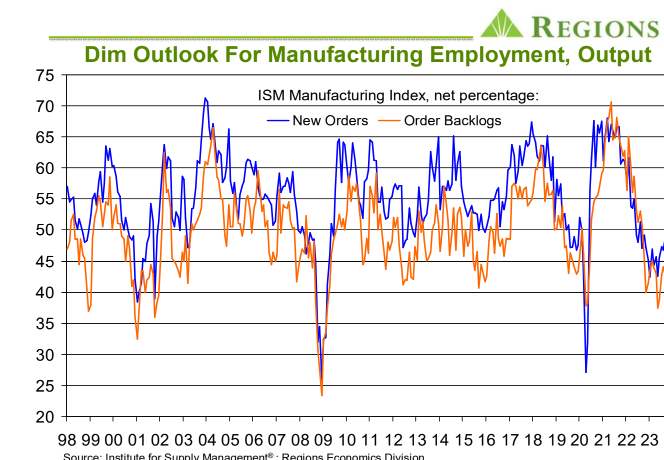
The ISM Manufacturing Index was unchanged at 46.7 percent in November, and it somehow seems fitting that a second straight 46.7 percent print marks a second straight month in which the headline index meaningfully performed expectations. Okay, maybe not all that fitting, but, either way, November marks the thirteenth consecutive month in which the headline index was below the 50.0 percent break between contraction and expansion. To be clear, we haven't looked for the headline index to push above that line of demarcation in either of the past two months, but we did at least expect some signs of stabilization that we could point to as an indication that maybe the worst of the factory sector's contraction was in the rearview mirror. Scouring through the details of the November data turns up no such signs. So, since the headline index number was a repeat, we'll repeat our broad take on the October survey to sum up how we see the November survey, which is that the November survey results suggest that even stability within the manufacturing is not readily within reach.



Three of the eighteen industry groups included in the ISM's survey reported growth in November – food, beverage, & tobacco products, nonmetallic mineral products, and transportation equipment, with the latter reflecting the resolution of the UAW strike. In contrast, fourteen industry groups reported contraction in November, one more than did so in October. You'd expect to see more industry groups reporting growth as a step toward growth in the overall sector, and we're just not there yet. Comments from survey respondents remain notably downbeat. In addition to comments around softening demand, a number of comments made reference to inventory management and cost control, areas that take on added importance in an environment in which demand is either slowing or contracting which, in turn, has implications for top-line revenue.



The new orders index rose to 48.3 percent in November from 45.5 percent in October, and if that seems like at least some progress, we're not so sure. As we noted in this week's *Economic Preview*, the November seasonal factor for the new orders index is the most generous of any month of this year, so the increase in the seasonally adjusted index could reflect more of a gift from seasonal adjustment than genuine improvement. Given that only two of the eighteen industry groups reported growth in orders while thirteen reported contractions, we're leaning toward the "gift from seasonal adjustment" explanation. More concerning is that new orders have now contracted for fifteen straight months, the longest such streak since 1981-82, which isn't all that inspiring of a comparison. At the same time, backlogs of unfilled orders thinned further in November, with not a single industry group reporting a larger backlog. At the same time, firms' assessments of their customer's inventories point to those inventories as being in the "just right to too high" range. Doing the math, contracting new orders, shrinking backlogs of unfilled orders, and customers at best not looking to build inventories all adds up to a weak outlook for employment and production in the manufacturing sector. That this comes thirteen months into a contraction makes it all the more discouraging.



The production index slipped to 48.5 percent in November, while the employment index fell to 45.8 percent from 46.8 percent in October. Three industry groups, one of which was transportation equipment, reported growth in employment while nine reported lower headcounts. November marks the second straight month in which ISM references firms actively reducing headcounts, as opposed to relying on attrition or hiring freezes, as a means of managing labor input. Given our discussion in the above paragraph, the risk is that more firms begin to become more reliant on layoffs as a means of responding to tepid demand.

Firms have also become more resolute in their own inventory management, with November marking the ninth straight month in which inventories contracted. With hopes of a rebound in early-2024 dimming, firms will continue to strictly control inventories. An ongoing slide in export orders – down in fifteen of the past sixteen months – is reinforcing the dour outlook for demand. Input prices continue to slide, with weak demand affording buyers room to negotiate prices down further.

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