# ECONOMIC UPDATE

REGIONS

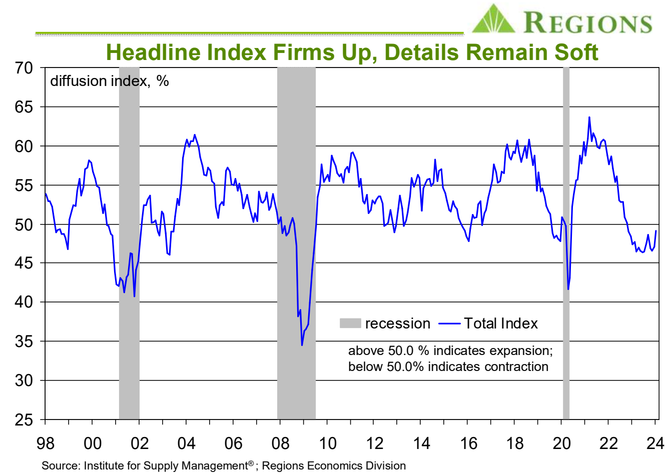
February 1, 2024



## January ISM Manufacturing Index: Headline Index Firms Up, Details Remain Soft

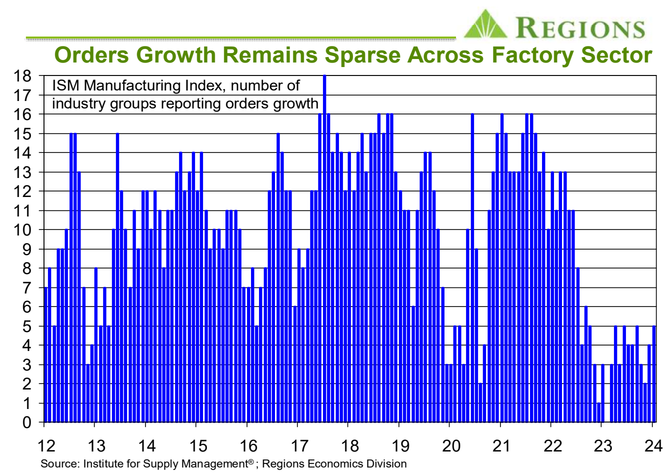
- The ISM Manufacturing Index rose to 49.1 percent in January from 47.4 percent in December
- The new orders index rose to 52.5 percent, the employment index fell to 47.1 percent, and the production index rose to 50.4 percent

The ISM Manufacturing Index rose to 49.1 percent in January, better than our above-consensus forecast of 47.9 percent anticipated. While January marks the fifteenth straight month in which the headline index is on the wrong side of the 50.0 percent break between contraction and expansion, some are cheering signs that a turnaround in the fortunes of the factory sector is close at hand, Most notably, the index of new orders rose to 52.5 percent, ending a run of sixteen straight months of contracting order books. Going through the details of the data, however, suggests tempering any optimism that such a turnaround is all that close. We'd characterize the January results as being, literally, less bad as opposed to actually being good. Still, less bad is indeed a step toward better, so there's that. Either way, perhaps the most noteworthy element of the January survey is the re-emergence of upward pressure on input prices, though whether this reflects growth in demand or geopolitical tensions and growing shipping challenges remains to be seen. We continue to think conditions in the manufacturing sector will remain challenging over the first half of 2024 before starting to improve over the back half of the year.



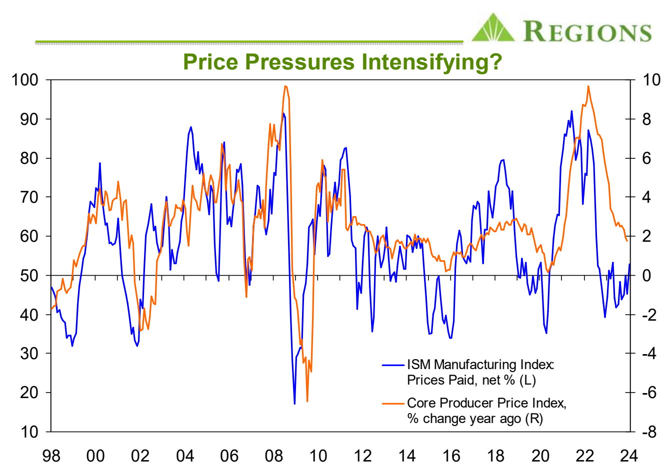

Of the eighteen industry groups included in the ISM's survey, four reported growth in January while thirteen reported contraction. While that is the most in any month since September, it is far from an encouraging sign that the fortunes of the sector as a whole are about to turn. Comments from survey respondents were mixed, though you'd expect more uniformly upbeat comments were conditions for the sector as a whole improving.

The new orders index illustrates our point about the January results being less bad than actually being good. True, the index rose to 52.5 percent in January which, as noted above, ended a run of sixteen straight months of declines in new orders. But, only five industry groups reported higher orders in January, while ten reported declines in orders. Looking at the data on the basis of respondents, rather than industry groups, shows 20.2 percent reported higher orders in January, up from 15.5 percent in December, while 23.5 percent reported lower orders, down from 27.0 percent in December. At the same time, 56.3 percent reported no change in orders. While the larger share reporting improvement and the smaller share reporting deterioration are positive signs, the diffusion index treats the "unchanged" block as a positive, which is how you can get the improvement in the new orders diffusion index despite twice as many industry groups reporting contraction than reporting expansion. Again, not to dismiss signs of improvement, but just to suggest the diffusion index rising to 52.5 percent may overstate the degree of actual improvement.




We can make the same case about the production index now being above the 50.0 percent mark for two straight months, as significantly more industry groups reported lower output (eleven) than reported higher output (four). There was an increase in the share of respondents reporting higher production, up from 15.5 percent in December to 18.4 percent in January, and while this boosted the diffusion index, we'd again argue that the 50.4 percent print overstates the degree of actual improvement. It is true that a higher share of survey respondents indicated that customer inventories were too low, offering some hope of firming order books over coming months, though the details of the data suggest any such firming from this source is more likely to be industry-specific than broadly based.

The prices paid index rose to 52.9 percent in January, indicating higher input prices after eight straight months of decreases. While ten of the eighteen industry groups reported paying higher input prices, keep in mind that January is typically the month in which new pricing structures are implemented, so we'll defer from drawing any firm conclusions as to how changes in underlying demand and/or shipping issues are impacting input prices.




We never take sides on any of the economic data; our task is to try and interpret the data, including the details, and translate that message into what it means for a given sector and the economy as a whole. So, while we are not totally dismissive of potential bright spots in the ISM's January survey, those spots are neither bright enough nor sufficiently broadly based to convince us that a sector-wide turnaround is at hand.

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