ECONOMIC UPDATE
REGIONS
March 1, 2024

February ISM Manufacturing Index: This Time Around, The Details Outperform The Headline

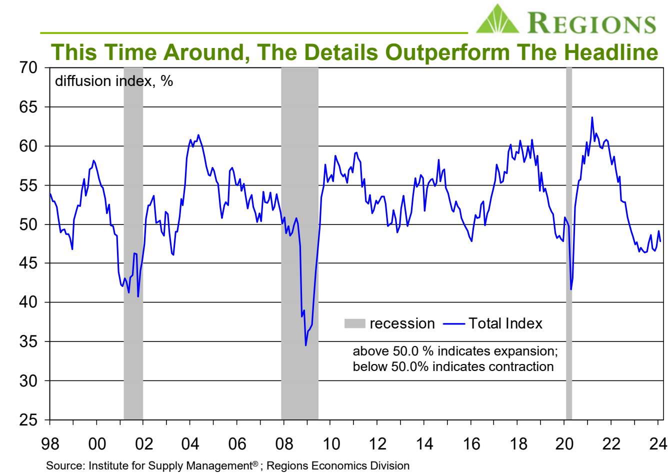
- The ISM Manufacturing Index fell to 47.8 percent in February from 49.1 percent in January
- The new orders index fell to 49.2 percent, the employment index fell to 45.9 percent, and the production index fell to 48.4 percent

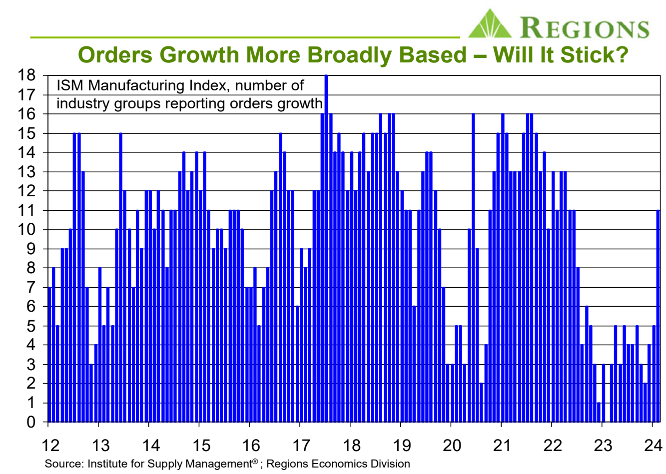
If this continues, we'll have to start referring to the ISM Manufacturing Index as the "yes, but" report. Last month, when the ISM's headline index rose to 49.1 percent, many took that as an encouraging sign that the long-running contraction in the manufacturing sector was, well, running its course. We offered a contrary take, noting that the details beneath the January headline number were not nearly as hopeful and suggested tempering any optimism that a turnaround in the factory sector was at hand. That the ISM's headline index fell to 47.8 percent in February, below what we and the consensus expected, may seem supportive of the stance we took a month ago, but the details of the February survey tell a different story. Indeed, many – though not all – of the details of the February survey are more upbeat than would be implied by the headline index, particularly the expanded breadth of growth in new orders and growth in new export orders for the first time in nine months. Moreover, the February seasonal factors were more challenging than were the January seasonal factors, which likely made February's headline index look a bit worse than was actually the case. To be sure, while February marks the sixteenth straight month in which the headline index was below the 50.0 percent break between contraction and expansion, things seem to be looking up for the manufacturing sector. That said, we often note that the economic data never move in straight lines, and still have reason to think that the first half of 2024 will remain somewhat bumpy for the manufacturing sector before conditions improve on a firmer path over the back half of the year.

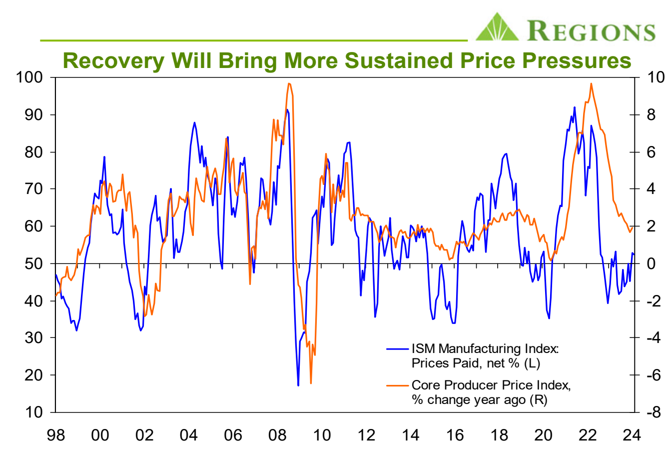
Of the eighteen industry groups included in the ISM's survey, eight reported growth in February, up from four in January and the most in any month since October 2022, and while seven industry groups reported contraction in February, that's down from thirteen in January. Comments from survey respondents were, on balance, also more upbeat than would be implied by the drop in the headline index. Respondents from many industry groups noted rising demand, though one respondent in the computer & electronic products industry group pointed to soft demand abroad. That more respondents are noting firmer demand is consistent with our expectations of production and shipments rising over coming months.

After having risen to 52.5 percent in January, ending a run of sixteen straight months of declining new orders, the new orders index fell back to 49.2 percent in February. At the same time, however, eleven industry groups reported growth in new orders in February, which is the most in any month since June 2022, while only four reported lower orders, down from the ten industry groups that did so in January. On the firm level, there was a meaningful decline in the percentage of firms reporting lower orders with increases in the percentages of firms reporting either no change in or higher orders. We'll also note that the February seasonal factor for the new orders index was much tougher than was the January seasonal factor, which likely pushed the new orders index back below the 50.0 percent mark. The question now is whether the expanded breadth of orders growth seen in the February survey will persist, which is a necessary condition for the factory sector transitioning from contraction to expansion. The production index also slipped back below the 50.0 percent mark in February after having topped that mark in January, but it is worth noting that there was a meaningful decline in the percentage of respondents reporting lower output from what the January survey showed. It is interesting that, while the employment index fell to 45.9 percent in February from 47.1 percent in January, ISM notes a one-to-one ratio between firms adding to and reducing head counts. It is likely too soon for firms to know whether the improvement in order books in February was one-off or the start of sustained improvement, and until firms are convinced they are seeing the latter, the employment index will likely remain below 50.0 percent.

We can point to a couple of other details suggesting improving conditions in the factory sector. First, supplier delivery times slowed – a sign of rising input demand – in February after having shortened for sixteen straight months. Second, the prices paid index held above 50.0 percent for a second straight month, also a sign of rising input demand.







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