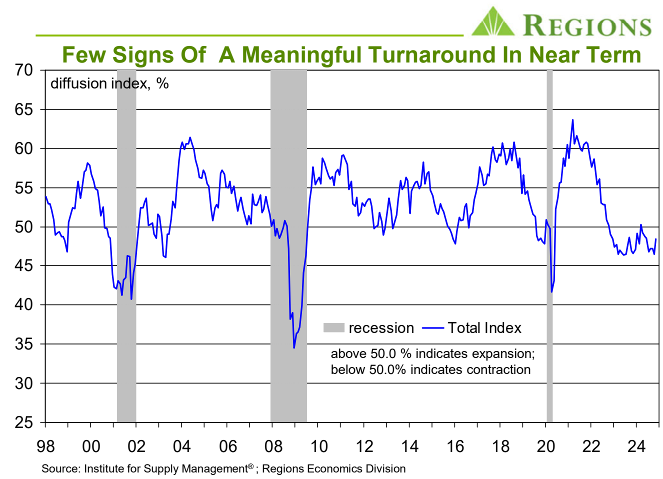
ECONOMIC UPDATE
REGIONS
December 2, 2024

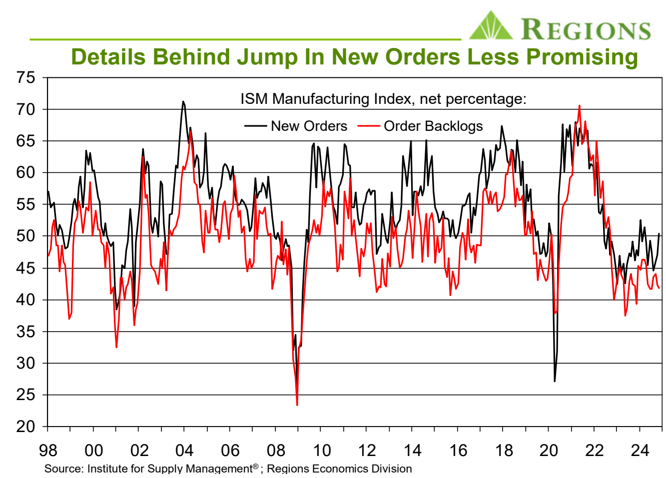
November ISM Manufacturing Index: Few Signs Of A Meaningful Turnaround

- The ISM Manufacturing Index rose to 48.4 percent in November
- The new orders index rose to 50.4 percent, the employment index rose to 48.1 percent, and the production index rose to 46.8 percent

The ISM Manufacturing Index rose to 48.4 percent in November, topping our forecast of 48.1 percent and the consensus forecast of 47.5 percent. Though below the 50.0 percent break between contraction and expansion for the twenty-fourth time in the past twenty-five months, the November print is the highest value for the headline index since June. That said, the details of the November survey hardly make a compelling or consistent case for an imminent turnaround in the manufacturing sector. Over the past several months, we've noted that the manufacturing sector seemed more or less stuck in a holding pattern, with sluggish global economic growth, still-high financing costs, and an uncertain outlook for U.S. tax, regulatory, and trade policy acting as stiff headwinds, and while the election is behind us, the policy outlook remains uncertain. As such, the manufacturing sector will remain on very tentative footing into 2025 with a meaningful rebound further off in the distance than we and many others had anticipated would be the case.

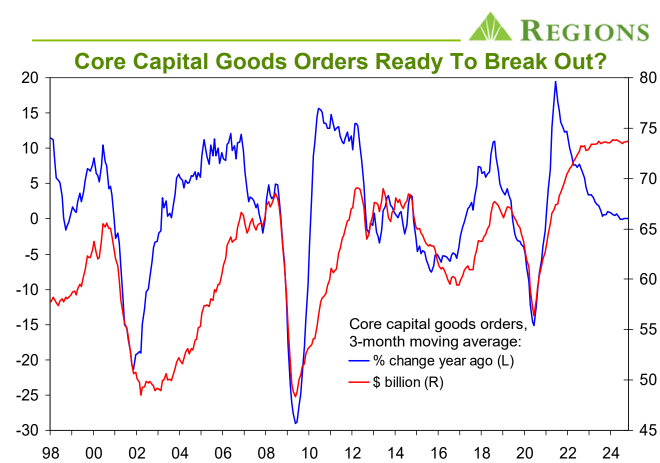


Only three of the eighteen industry groups included in the ISM's survey reported growth in November, down from five in each of the prior four months and the fewest in any month since last December. Comments from survey respondents point to continued soft demand. One notable outlier was a respondent from the computer & electronic products industry group who noted that unleashed pent-up demand is resulting in a sharp increase in order backlogs. Each side of the tariff coin got a mention in the comments; one respondent in miscellaneous manufacturing noted their firm was trying to map out purchasing plans in light of potentially higher tariffs on Chinese goods and a lack of relationships with low-cost providers in other nations, while one respondent in primary metals noted more customers looking to reestablish production in the U.S.



The new orders index rose to 50.4 percent in November from 47.1 percent in October, but the firm-level details show this to be more a function of fewer firms reporting declines in orders rather than more firms reporting higher orders – the ISM's diffusion indexes are based on changes in the net percentages of firms reporting higher/lower values for the given metrics. To that point, only five industry groups reported higher orders in while ten reported lower orders in November. At the same time, backlogs of unfilled orders thinned out further in November and have now fallen in twenty-seven consecutive months.

The production index edged up to 46.8 percent in November from 46.2 percent in October, indicating a slower pace of contraction in output. That was also the case with the employment index, which rose to 48.1 percent from October's read of 44.4 percent. The absence of meaningful and broadly based growth in new orders combined with continued declines in order backlogs suggests limited upside room for employment and output in the factory sector in the months ahead. That conditions in the manufacturing sector remain weak is reflected in faster supplier delivery times, which acts a drag on the headline index. The prices paid index slipped to 50.3 percent in November from 54.8 percent in October. Though steadily rising prices for non-labor inputs over the past several months have been somewhat surprising against the weak backdrop of overall conditions in the factory sector, the November data at least suggest the upward momentum in input prices is fading, but any firming in overall conditions will bring renewed input price pressures.



There is little in the data to suggest firms pre-emptively adding to inventories in response to a potential mid-January port strike and/or potentially more expansive tariffs. While the inventory index did rise to 48.1 percent from 42.6 percent in October, this is more a reflection of fewer firms reporting lower inventory levels than more firms reporting rising inventories. At the same time, firms indicate customer inventory levels are basically neutral in terms of potential support for future growth in new orders and production.

Though not part of the ISM surveys, the monthly data on orders for core capital goods (nondefense capital goods excluding aircraft & parts) are consistent with the premise of the factory sector being in a holding pattern. Core capital goods orders been rangebound since the beginning of 2023, and an upside breakout over the next few months looks somewhat unlikely. That will likely also be the case for the ISM Manufacturing Index.

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