# ECONOMIC UPDATE

REGIONS

January 3, 2025



## December ISM Manufacturing Index: Factory Sector ~~Boldly~~ Tentatively Steps Into 2025

- The ISM Manufacturing Index rose to 49.3 percent in December from 48.4 percent in November
- The new orders index rose to 52.5 percent, the employment index fell to 45.3 percent, and the production index rose to 50.3 percent

The ISM Manufacturing Index rose to 49.3 percent in December, beating our forecast and the consensus forecast to the upside. Though this leaves the headline index below the 50.0 percent break between contraction and expansion for the twenty-fifth time in the past twenty-six months, that the new orders index topped the fifty percent threshold for a second straight month while the production index pushed above that threshold for the first time since May have led some to conclude the factory sector is on the verge of breaking free of its long-running malaise. We're not quite on board with that take, as the industry and firm level splits in the data suggest more of the same for the factory sector as we head into 2025. What we've for some time pointed to as the significant headwinds confronting the factory sector – wobbly global growth, still-high financing costs, and an uncertain outlook for U.S. tax, regulatory, and trade policy – all remain in place at the turn of the year. That some of the diffusion indexes for the components of the headline index seem to strike a more positive note is more a function of the manner in which these diffusion indexes are calculated than a sign of genuine improvement in underlying conditions. As such, rather than boldly striding into the new year, we see it more as the manufacturing sector tentatively stepping into 2025. This by no means to say that conditions in the factory sector can't or won't improve as we move through the year, but at present the catalysts for a meaningful and sustained turnaround have yet to make themselves known.

To our point about stepping tentatively into 2025, the headline index averaged 48.3 percent for all of 2024, and this is the first time since 2007-2008 that the headline index averaged below fifty percent for two straight years. Moreover, the average over the final six months of 2024 was lower than over the first six months of the year, which is also the case for the new orders index – despite it topping fifty percent in the final two months of 2024. Seven of the eighteen industry groups included in the ISM's survey reported growth in December, up from three in November and the most in any month since June. Still, comments from survey respondents are very much of a mixed bag, spanning the spectrum from softening sales to operating at full capacity but with nothing suggesting a meaningful and broadly based turnaround in overall conditions is at hand.

The new orders index rose to 52.5 percent from 50.4 percent in November, but only six of the eighteen industry groups reported orders growth while eight reported lower order volumes. As there was no change in the percentage of firms reporting higher orders, the improvement in the diffusion index driven by a small percentage of firms shifting from reporting lower orders to reporting unchanged orders. In terms of the calculation of the diffusion index, not getting worse basically counts as getting better. The details behind the production index rising to 50.3 percent from 46.8 percent in November are also less promising; there was a decline in the percentage of firms reporting higher output and an increase in the percentage of firms reporting lower output relative to November, yet the production index rose in December. All of this goes to our point about the details of the survey being less constructive than implied by the readings for the component indexes.

At the same time, the employment index slipped to 45.3 percent in December from 48.1 percent in November and has indicated contracting payrolls in fourteen of the past fifteen months, with only two industry groups reporting higher head counts in December. The December survey also shows further shrinking in order backlogs, marking twenty-seven months of shrinking backlogs. 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.

While they perhaps would not use those exact words to describe their outlook, that firms continue to draw down inventories suggests they would not necessarily disagree with our assessment. Moreover, there is little in the survey to suggest firms pre-emptively adding to inventories of materials to avoid higher tariffs, which doesn't exactly suggest great expectations of improving conditions being on the horizon.

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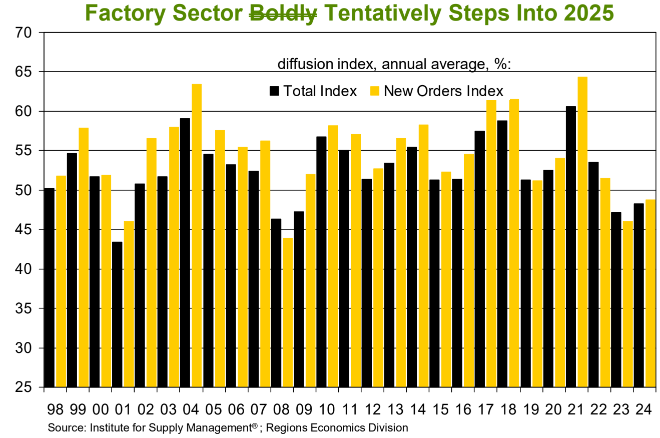
**Factory Sector ~~Boldly~~ Tentatively Steps Into 2025**

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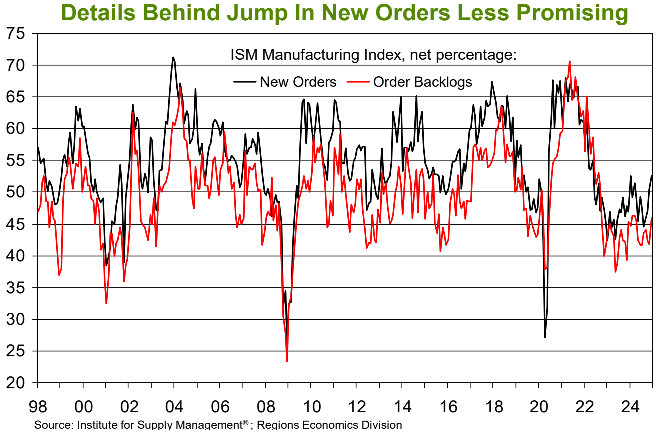
**Details Behind Jump In New Orders Less Promising**

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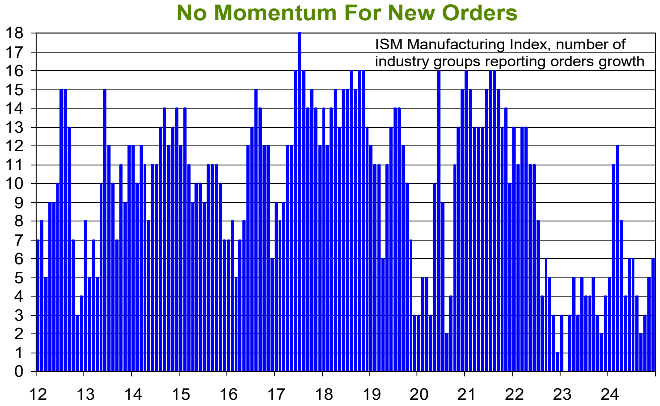
**No Momentum For New Orders**

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