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January ISM Manufacturing Index: Solid Start To 2026, Will It Be Sustained?

- › The ISM Manufacturing Index rose to 52.6 percent in January from 47.9 percent in December
- › The new orders index rose to 57.1 percent, the production index rose to 55.9 percent, and the employment index rose to 48.1 percent

The ISM Manufacturing Index rose to 52.6 percent in January, easily clearing our above-consensus forecast of 49.5 percent and breaking a run of ten straight months in which the headline index was on the wrong side of the 50.0 percent break between contraction and expansion. Each of what we see as the three most important components of the headline index – new orders, production, and employment – showed improvement in January and the inventory detail suggest the gains seen in the January metrics may be sustained in coming months. In discussing the ISM surveys, manufacturing and non-manufacturing, we frequently note that the changes in the diffusion indexes can at times be misleading and that the firm level splits are the much better guide to whether, in what direction, and to what extent conditions are either improving or deteriorating. In the case of the January survey of the manufacturing sector, the firm level details and the diffusion indexes are, happily in this instance, in alignment, and that isn’t a total surprise to us. In this week’s *Economic Preview*, we noted that while the ISM’s headline index has been oddly rangebound for the past two-plus years, we did expect a breakout to the upside “at some point soon” even if we did not anticipate that being this soon. That remains to be seen, of course, but our point was that we’ve seen a clear upward trend in orders for core capital goods orders over the past several months, with orders growth becoming more broadly based over that span. Combined with inventories having been run down after the surge seen in early-2025 and firms learning to navigate a still-volatile trade policy landscape, and we thought it was reasonable to expect the ISM Manufacturing Index to push above the 50.0 percent mark. But, as we learned last year, when the headline index topped that mark in both January and February before falling back below it for the remainder of the year, getting there and staying there are two different things. While we think there may be more staying power this year than was the case last year, time will tell.

Nine of the eighteen broad industry groups included in the ISM survey reported growth in January, the most in any month since last June, while eight reported contraction, which right off the bat tempers the reaction to the January results. At the same time, comments from survey respondents relayed by ISM remain negative, with many comments again pointing to

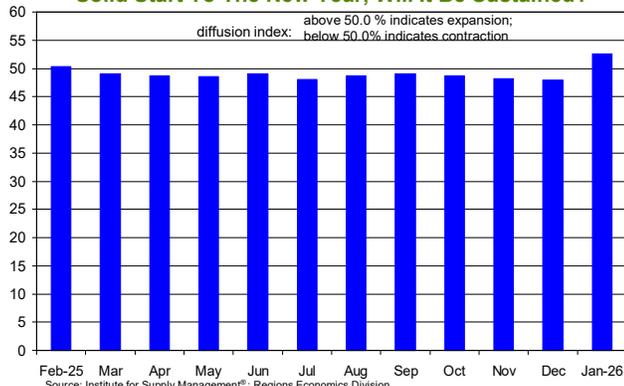
the adverse impacts of higher tariff rates and continued uncertainty around the course of U.S. trade policy. More than one respondent noted pressures on profit margins stemming from higher tariff costs, which is leading many firms to remain vigilant in holding down costs in other areas, including labor costs. To the extent there is sustained improvement in order books, it could be that firms are more reliant on efficiency improvements, i.e., faster productivity growth, than on adding to head counts than would otherwise have been the case.

The index of new orders rose to 57.1 percent in January, the highest reading since February 2022. Eight of the eighteen broad industry groups reported growth in new orders in January, the most since last August, while seven reported lower order volumes. This is where the firm level details may be a better gauge, as the January survey shows a marked increase in the percentage of firms reporting higher orders and a marked drop in the percentage of firms reporting lower orders. Again, it’s just one month at this point, and it could prove to be no more than start-of-the-year restocking, but the magnitude of these swings nonetheless stands out. There is a similar pattern in the production index, with the net result being the index rising to 55.9 percent, also the highest reading since February 2022, with eleven of the eighteen broad industry groups reporting higher output in January. While the employment index rose to 48.1 percent from 44.8 percent in December, firms remain cautious in managing head counts, with ISM noting firms continuing to not fill open positions. That could change should there be sustained growth in new orders, but we still think any such boost to factory sector employment would be tempered by firms pushing for faster productivity growth.

It is interesting to note that the index of order backlogs showed rising order backlogs in January, the first such occurrence since September 2022. At the same time, firms assessed customer inventories to be too low to a degree last seen in June 2022. Again, it is important not to overreact to a single month’s observations, but growing order backlogs and customer inventories seen as being too lean suggest room for further gains in orders and production in the months ahead. To the extent there is a downside to this, it would be that the steady, broadly based increases in input prices seen over the past two years will remain, if not intensify.



Solid Start To The New Year, Will It Be Sustained?



Order Books Firm Up In January

