

November ISM Manufacturing Index

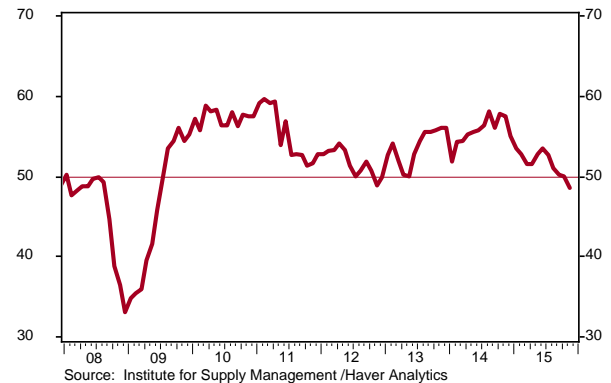
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- The ISM manufacturing index declined to 48.6 in November, well below the consensus expected level of 50.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in November. The new orders index fell to 48.9 from 52.9, while the production index dropped to 49.2 from 52.9. The employment index jumped to 51.3 from 47.6, and the supplier deliveries index increased to 50.6 from 50.4.
- The prices paid index declined to 35.5 in November from 39.0 in October.

Implications: No two ways about it, at 48.6 in November the ISM manufacturing index fell below 50, signaling contraction, for the first time in three years and came in lower than the forecast from any economic group. Today's data highlight a stark contrast in two broad sectors of the economy: services, where the economy is expanding briskly and prices are rising, versus goods, where both growth and inflation are soft to non-existent. ISM survey respondents cited the strong dollar as a headwind to global sales, while low energy prices continue to hurt companies in the energy sector. Adding to the trouble, stores are still working through excess inventories that resulted from overaggressive purchasing earlier in the year. While we would much rather see readings above 50, there are two important things to remember with today's report. First, the manufacturing sector represents a much smaller portion of the economy than the service sector, which has been growing much more rapidly in 2015. Paired with solid gains in employment and wages, as well as positive trends in housing and consumer spending, the economic fundamentals suggest a recession is nowhere in sight. Second, the inventory buildup is a temporary factor, and the pickup in hiring activity suggests companies are expecting orders to move higher soon, too. The drop in the overall ISM index looks a lot like the last time the manufacturing index fell below 50 back in November 2012, and that one-month dip was followed by three years of economic growth. In other words, ignore headlines that suggest the sky is falling and the Fed should hold off on raising rates later this month.

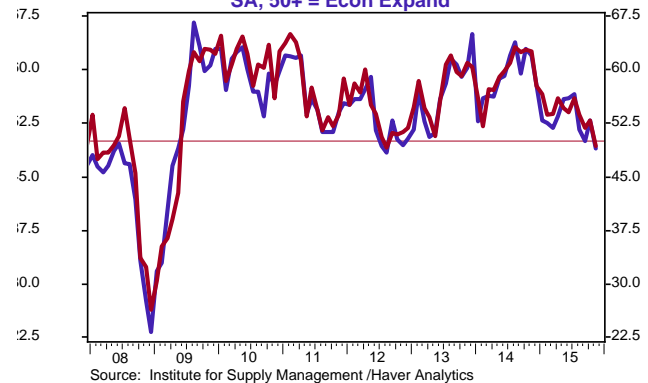
The modest readings from the ISM manufacturing report in 2015, after peaking at 58.1 in August 2014, have given some pessimists reason to cheer, but we see no broad-based evidence of a significant slowdown. And remember, the ISM is a survey which can reflect sentiment as much as actual economic activity. A look at the big picture, rather than a focus on volatile monthly data, shows a green light for the Fed. In other news this morning, construction increased 1% in October (1.2% including upward revisions to prior months). The gain in October was led by federal government construction projects, single-family homes, and manufacturing facilities (chemicals, in particular). Yesterday, the National Association of Realtors reported that pending home sales, which are contracts on existing homes, increased 0.2% in October after dropping 1.6% in September. Our models suggest existing home sales, which are counted at closing, will be up slightly in November.

ISM Mfg: PMI Composite Index
 SA, 50+ = Econ Expand



ISM Mfg: Production Index
 SA, 50+ = Econ Expand

ISM Mfg: New Orders Index
 SA, 50+ = Econ Expand



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Nov-15	Oct-15	Sep-15	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	48.6	50.1	50.2	49.6	51.0	57.6
New Orders	48.9	52.9	50.1	50.6	52.7	62.1
Production	49.2	52.9	51.8	51.3	52.9	62.6
Inventories	43.0	46.5	48.5	46.0	48.2	51.5
Employment	51.3	47.6	50.5	49.8	51.5	54.6
Supplier Deliveries	50.6	50.4	50.2	50.4	49.9	57.0
Order Backlog (NSA)	43.0	42.5	41.5	42.3	43.8	55.0
Prices Paid (NSA)	35.5	39.0	38.0	37.5	40.8	44.5
New Export Orders	47.5	47.5	46.5	47.2	47.6	55.0

Source: National Association of Purchasing Management

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