

November ISM Manufacturing Index

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- The ISM Manufacturing Index declined to 57.5 in November, lagging the consensus expected 58.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in November but also mostly above 50, signaling continued growth. The employment index fell to 48.4 from 53.2 in October, while the new orders index declined to 65.1 from 67.9. The production index moved lower to 60.8 from 63.0. The supplier deliveries index rose to 61.7 from 60.5 in October.
- The prices paid index declined to 65.4 in November from 65.5 in October.

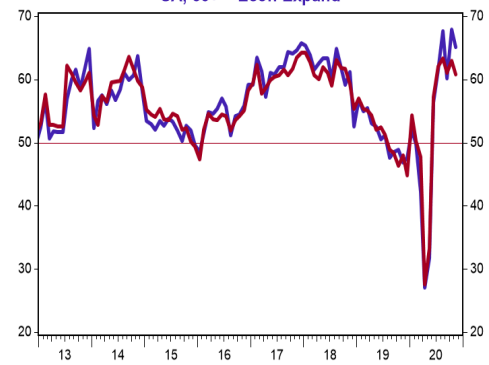
Implications: The manufacturing sector continued its recovery in November, albeit at a slightly slower pace of expansion than in October. Readings above 50 signal expansion in the manufacturing sector, so the November mark of 57.5 is well into growth territory. And importantly, the pickup in activity remained broad-based in November, with sixteen of eighteen industries reporting expansion, while two – printing & related support activities, and petroleum & coal products - reported contraction. A look through the respondent comments shows that the headwind to faster activity is coming more from the supply side difficulties than from a lack of demand. Comments such as “suppliers are still experiencing labor shortages,” “resurgence in COVID-19 cases adding strain on... suppliers,” and “our suppliers are having issues meeting our orders due to people shortages” come in contrast to comments such as “our business is booming,” “customer order volumes are very strong,” and “we’re seeing life from our customers.” These responses ring true when looking at the details of today’s report. While the two most forward-looking indices – new orders and production – moved lower in November, they remain at readings in the 60’s, representing a robust pace of growth. And given that the customers’ inventories index hit the lowest reading in more than a decade at 36.3 in November, while at the same time the backlog of orders index (which show orders rising faster than production can fill them) hit a multi-year high at 56.9, the data suggest activity should remain robust for the foreseeable future. Employment, meanwhile, moved back into contraction territory following a brief foray above 50 in October. Does that mean manufacturing employment declined in November? We don’t think so. With the exceptions of March and April, the manufacturing sector saw job creation in nine of the last twelve months that the index showed contraction. While it may change with data out over the coming days, we are projecting that Friday’s report on manufacturing payrolls will show a gain of 47,000 jobs in November, with total nonfarm payrolls growing by 490,000. The only major index to rise in November was supplier deliveries, which moves higher when companies have difficulty meeting demand on a timely basis, and moves lower as delays ease. The coronavirus and related shutdowns have wreaked havoc on supply chains, in particular, transportation challenges, labor shortages, and limitations on the number of workers who can be present at any given time due to safety concerns (see the respondent comments noted above). These challenges have generated a sustained headwind to the process of getting back to business, and are expected to remain for the foreseeable future, representing one of the biggest headwinds to faster production and inventory growth. On the inflation front, the prices paid index was essentially unchanged in November, moving to 65.4 from 65.5 in October, as rising costs for aluminum, copper, and steel continue to lead the index. This, too, is in part a reflection of the supplier delivery difficulties, as rising costs to acquire and produce input materials are being passed along to manufacturing companies. It’s not smooth sailing yet, but manufacturing remains a stalwart of the economic recovery. In other news this morning, construction spending rose 1.3% in October (+1.7% including revisions to prior months). Strong growth once again from homebuilding was partially offset by a decline in private-sector commercial and power projects.

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



Source: Institute for Supply Management/Haver Analytics

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



Source: Institute for Supply Management/Haver Analytics

Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Nov-20	Oct-20	Sep-20	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	57.5	59.3	55.4	57.4	55.8	48.1
New Orders	65.1	67.9	60.2	64.4	63.1	46.8
Production	60.8	63.0	61.0	61.6	61.3	48.0
Inventories	51.2	51.9	47.1	50.1	48.7	47.2
Employment	48.4	53.2	49.6	50.4	47.3	46.8
Supplier Deliveries	61.7	60.5	59.0	60.4	58.7	51.7
Order Backlog (NSA)	56.9	55.7	55.2	55.9	53.3	43.0
Prices Paid (NSA)	65.4	65.5	62.8	64.6	59.6	46.7
New Export Orders	57.8	55.7	54.3	55.9	53.2	47.9

Source: National Association of Purchasing Management