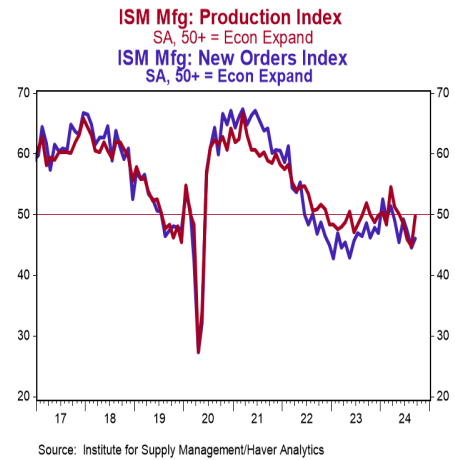
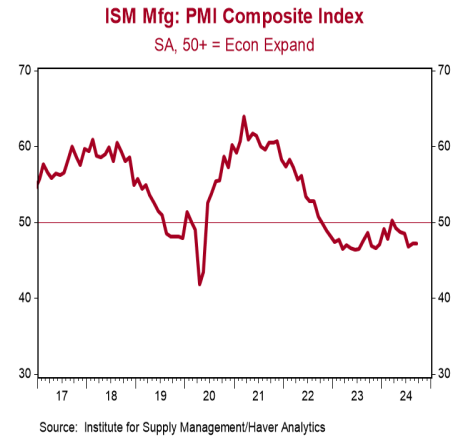


November ISM Manufacturing Index

Nate Gerze, CFA – Economic Analyst
 Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist

- The ISM Manufacturing Index increased to 48.4 in November, beating the consensus expected 47.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in November. The new orders index increased to 50.4 from 47.1, while the production index rose to 46.8 from 46.2. The employment index increased to 48.1 from 44.4 in November, while the supplier deliveries index declined to 48.7 from 52.0.
- The prices paid index declined to 50.3 in November from 54.8 in October.

Implications: Factory activity continued to decline in November in what has been an ugly stretch for the US manufacturing sector. Although the ISM Manufacturing index beat expectations and rose to 48.4 – the highest level since June – the measure remained below 50 (signaling contraction) for the eighth consecutive month and has done so for 24 out of 25 months. Looking at the details, three out of eighteen major manufacturing industries reported growth in November, while eleven reported contraction, and four no change. The good news is that new orders expanded in November (albeit barely) for the first time in eight months, rising to 50.4. However, the rebound in demand appears to be split between industries, as some companies paint an optimistic order outlook for 2025 in their survey comments while others say that business remains slow and anticipate that trend to continue. Some companies have been able to scrape by despite weak demand by focusing on their order backlogs, which were artificially boosted with pent-up activity from the COVID years. That index, which fell into deeper contraction territory at 41.8, has been below 50 for every month in the last two years. At some point, this reprieve for weaker demand has to give. Manufacturing companies have adjusted their hiring efforts accordingly as employment continued to contract in November, now for the sixth month in a row. Of the eighteen manufacturing industries, three industries reported employment growth in November, while ten reported a decline. Finally, inflation remains a problem in the manufacturing sector. Prices paid by companies rose again in November (but at a slower pace than the previous month) as the prices index declined to 50.3 from 54.8. Given that the prices index has been above 50 for all but one month in 2024 despite sluggish activity, it’s clear the embers of inflation remain. Manufacturing companies are also seeing inflation affect the demand side. A comment from a company in the Food, Beverage, and Tobacco Products industry wrote, “Inflation, even after easing, continues to impact demand. Consumers are looking for value, and purchasing behaviors are changing as many shoppers reduce consumption, causing softer volume.” While the Fed believes they have room to continue cutting rates at the meetings ahead, there are serious risks that an overly aggressive path of cuts could bring with them a pickup in the M2 measure of money, and with it a return of inflation. In other news this morning, construction spending rose 0.4% in October, as a large increase in homebuilding was only partially offset by drops for commercial construction and highway & street projects.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Nov-24	Oct-24	Sep-24	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	48.4	46.5	47.2	47.4	47.4	46.6
<i>New Orders</i>	50.4	47.1	46.1	47.9	47.5	47.8
<i>Production</i>	46.8	46.2	49.8	47.6	47.0	48.8
<i>Inventories</i>	48.1	42.6	43.9	44.9	45.8	44.3
Employment	48.1	44.4	43.9	45.5	45.9	46.1
Supplier Deliveries	48.7	52.0	52.2	51.0	51.0	46.2
Order Backlog (NSA)	41.8	42.3	44.1	42.7	42.5	39.3
Prices Paid (NSA)	50.3	54.8	48.3	51.1	52.1	49.9
New Export Orders	48.7	45.5	45.3	46.5	47.7	46.0

Source: National Association of Purchasing Management