ECONOMIC UPDATE

REGIONS

December 1, 2021

November ISM Manufacturing Index: Early Signs Of Relief On The Supply Side?

- The ISM Manufacturing Index rose to 61.1 percent in November from 60.8 percent in October
- The new orders index rose to 61.5 percent, the employment index rose to 53.3 percent, and the production index rose to 61.5 percent

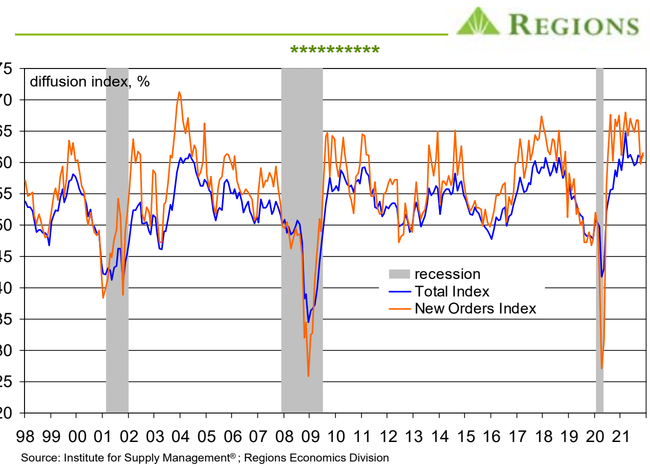
The ISM Manufacturing Index rose to 61.1 percent in November, matching the consensus forecast but falling short of our forecast of 61.8 percent. November marks the 18th straight month in which the headline index was above the 50.0 percent break between contraction and expansion. Though at this point we wouldn't consider either as a red flag warning that the expansion in the factory sector is at risk of ending, we do think it worth noting that the expansion was less broad based in November than had been the case over the prior several months, which is also true of growth in new orders. Further narrowing in the breadth of the expansion would be cause for concern. At the same time, however, the ISM's November survey offers signs that, while still highly problematic, the supply chain and logistics constraints that have hamstrung the manufacturing sector over the prior several months are beginning to abate. To be sure, this still leaves conditions far from normal, but at least there have been a few steps in that direction. The emergence of the Omicron variant, however, poses a risk to the modest progress made thus far.

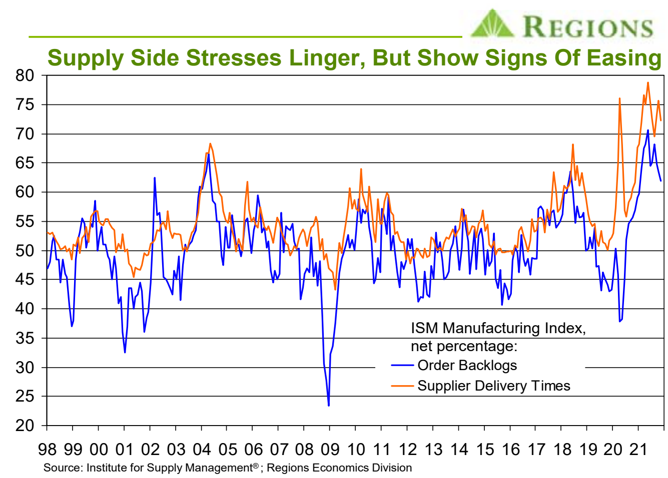
Of the 18 industry groups included in the ISM's survey, 13 reported expansion in November, the smallest number since July 2020. As noted above, this is worth noting but is not at this point alarming, particularly since only two industry groups – printing & related support activities and primary metals – reported contraction in November. Comments from survey respondents continue to indicate overall solid demand, though a respondent in the machinery industry notes sales growth has slowed amid record-high order backlogs. Some of the comments note "signs of improvement" or "slowly improving" when referring to supply-side and logistics bottlenecks, while others offer no such hopeful signs. In terms of rising input prices and labor supply constraints, widespread and meaningful relief seems further out on the horizon.

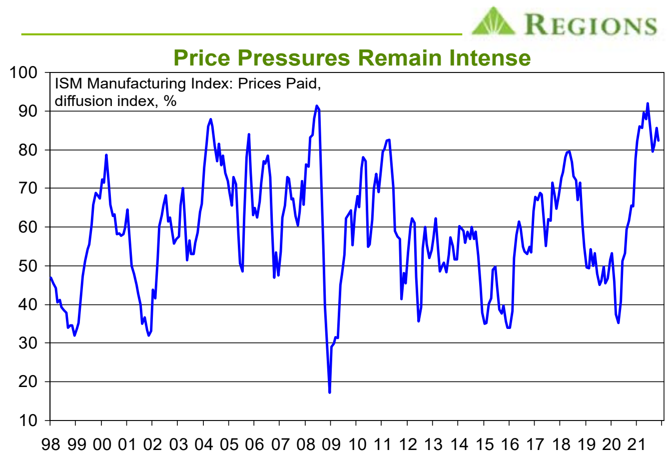
The new orders index rose to 61.5 percent in November from 59.8 percent in October, but only 10 of the 18 industry groups reported growth in orders, compared to the 14 industry groups reporting higher orders in October, while 5 reported lower order volumes. It could be that demand is starting to slow, or it could be that month after month of uncertain delivery times has led firms to pull back on new orders until existing backlogs begin to clear and delivery times come into better focus. It is too soon to know at this point, but this clearly bears watching in the months ahead. The production index rose to 61.5 percent in November from 59.3 percent in October, with 11 of the 18 industry groups reporting higher output while four reported lower output. Production remains constrained by inadequate supplies of labor and raw materials, and ISM notes heightened labor turnover remains a negative trend. The employment index rose to 53.3 percent in November from 52.0 percent in October, with 10 industry groups reporting higher job counts and five reporting decreases in employment.

Order backlogs grew further, albeit at a slower pace, in November, which was the 17th consecutive month of growing backlogs. Thirteen of the 18 industry groups reported larger backlogs in November with only one reporting smaller backlogs. Even if new orders do tail off more than we think likely at this point, sizable backlogs of unfilled orders will keep manufacturers busy for some time. One reason we think orders will continue to hold up is that firms continue to see their customers' inventories as being too low, indicating further upside room for new orders and production.

Supplier delivery times slowed further in November, but the rate at which delivery times slowed eased a bit, with 16 of the 18 industry groups reporting slower delivery times. While the prices paid index slipped from 85.7 percent in October to 82.4 percent in November, all 18 industry groups reported paying higher prices for non-labor inputs. It will take much further improvement on the supply and shipping fronts than any seen to date to provide meaningful relief on the cost front which, despite some encouraging signs, isn't likely to come until well into 2022.







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