

*This Economic Update may include opinions, forecasts, projections, estimates, assumptions, and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.*

## January ISM Manufacturing Index: Expansion Endures Despite Ongoing Challenges

- The ISM Manufacturing Index fell to 57.6 percent in January from 58.8 percent in December
- The new orders index fell to 57.9 percent, the employment index rose to 54.5 percent, and the production index fell to 57.8 percent

The ISM Manufacturing Index fell to 57.6 percent in January, above what we (56.8 percent) and the consensus (57.5 percent) expected. January is the third straight month in which the headline index fell but nonetheless marks the 20<sup>th</sup> consecutive month in which the headline index was above the 50.0 percent break between contraction and expansion. As we noted in our weekly *Economic Preview*, we were unsure of the extent to which COVID-related absences from work would impact the January survey, but at the same time knew that favorable seasonal adjustment would cushion the blow from any deterioration in the raw data. While the expansion in the factory sector continues, it has become slightly less broad based than had been the case, while labor supply, supplier deliveries, and rising costs for non-labor inputs remain impediments to faster growth in manufacturing output while feeding continued growth in backlogs of unfilled orders. Still, steady growth in new orders for manufactured goods leaves room for further growth in employment and output in the factory sector in 2022.

Of the 18 industry groups included in the ISM's survey, 14 reported expansion in January, down from 15 in December, with only the paper products industry group reporting a decrease in activity in January. Comments from survey respondents indicate uneven progress in clearing supply chain bottlenecks, with labor supply issues – absences due to COVID, inability to find additional labor, retaining current workers – cited by respondents in a number of industry groups. Several respondents noted that their suppliers are contending with the same labor supply issues, which means progress on the supply chain front is coming at a halting pace.

The new orders index slipped from 61.0 percent in December to 57.9 percent in January, with 11 of the 18 industry groups reporting growth in orders while two reported declines. Orders growth was less broad based in January than had been the case over the prior several months, which is consistent with other indicators showing activity in the factory sector has been a bit choppy of late. While none of the comments from survey respondents pointed to declining demand, there are some concerns that stretched out delivery times are fostering an impatience amongst customers that could possibly lead to orders being cancelled. With a jump in unplanned absences from work, it is no surprise that the current production index fell in January but, at 57.8 percent, is still consistent with growth in output. Ten of the 18 industry groups reported growth in output in January, with three reporting declines. While the employment index rose to 54.5 percent in January from 53.9 percent in December, only 9 of the 18 industry groups reported growth in employment while five reported decreases in employment.

Reflecting the combination of continued growth in new orders and ongoing supply-side stresses, order backlogs grew further in January, the 19<sup>th</sup> consecutive month of growing backlogs. Eleven of the 18 industry groups reported larger backlogs in January with two 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 in the months ahead.

Supplier delivery times were marginally slower in January, with ISM noting rising COVID cases amongst suppliers and across the transportation sector were drags on delivery times. Still, ISM went on to say that suppliers are expected to be back on track in February, which should lead to a better supply-demand balance in March. The prices paid index jumped from 68.2 percent in December to 76.1 percent in January, with 17 of the 18 industry groups paying higher input prices. While the rate at which input prices are rising appears to have eased, input prices nonetheless are still rising, with firms passing along much, if not all, of these higher costs on to customers.

