

Economic Indicator — November 1, 2021

Manufacturing Activity Still Strong Despite Persistent Supply Issues

Summary

October's ISM manufacturing report demonstrates that activity remains strong despite persistent supply issues. The overall index slid to 60.8 last month, largely due to a 6.9 point drop in new orders. That said, purchasing managers across industries continue to cite strong demand. The largest gains came from two components that continue to be at the center of supply issues: prices paid and supplier deliveries.

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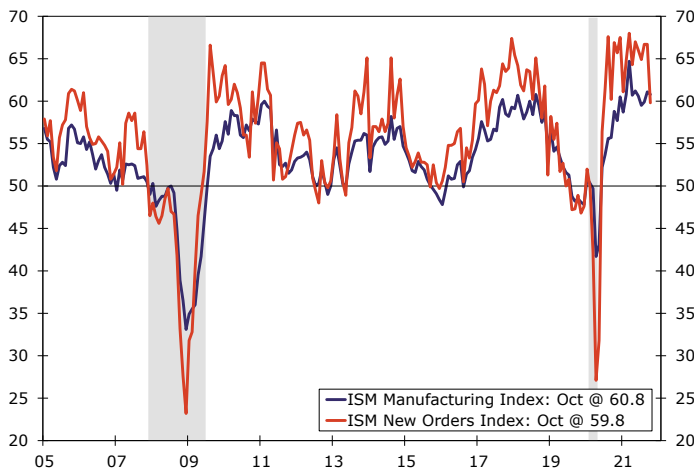
Dip in New Orders Dampens October ISM

The ISM manufacturing index slipped to 60.8 last month from 61.1 in September, a pace still consistent with a blistering pace of expansion in the sector. The details of the report continue to demonstrate how persistent supply chain challenges are weighing on manufacturers. By many measures, supply issues seem to have gotten worse in October.

Of the purchasing manager comments quoted in the survey, all but one industry directly cited supply issues. Encouragingly, many also referenced strong demand, as businesses continue to place orders. But despite the resilient demand reported by managers, the new orders component tumbled 6.9 points, which marks the largest decline since April 2020 when lockdowns were in earnest. The pull back in activity likely reflects some noise rather than a withdrawal of demand as at 59.8, the new orders component still exhibits broad expansion.

The drop in orders seemed to afford manufacturers the ability to chip at elevated levels of backlogs, with the sub-component sliding to its lowest in ten months and production more-or-less remaining steady. But port congestion and rising domestic lead times continue to inhibit manufacturers from securing all the inputs they need to complete production. Partially complete product is thus likely behind the pickup in the inventory component which rose to 57.0 in October, the highest since 1984.

ISM Manufacturing vs. New Orders

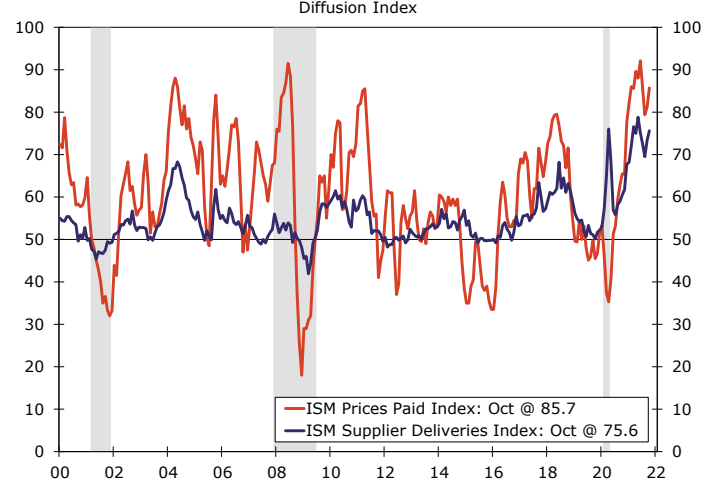


Source: Institute for Supply Management and Wells Fargo Securities

Unsurprisingly, the largest gains last month came from two components at the center of supply issues: prices paid and supplier deliveries. The prices paid index leaped 4.5 points to 85.7 as limited supply of inputs continues to bid up costs. The supplier delivery component rose 2.2 points to a five-month-high. Both have marched considerably higher over the past year and continue to exemplify the severity of bottlenecks. In other words, manufacturers simply are unable to get their hands on the inputs needed to complete production. While physical inputs continue to be hard to come by, the 1.8 point rise to 52.0 in the employment component suggests hiring may be improving. The sector has been in dire need for labor, with manufacturing seeing some of the fastest gains in job openings over the past year. Admittedly, the employment component of the ISM has diverged from other employment readings in recent months. But squaring the expansionary reading for October with the pickup in the other regional PMI employment indices bodes well for manufacturing hiring in October's nonfarm payroll report to be released Friday.

Our [pressure gauge](#) continues to demonstrate little, if any, improvement in supply issues. The number of ships on average awaiting port space off the West Coast rose to a record 67 in October and the price of shipping a container across the Pacific Ocean remains more than six times above pre-pandemic norms. Job postings for industry-specific positions continue to move higher and inventories remain severely depleted. In short, we still think there is some time yet until we see a meaningful improvement in supply. This suggests manufacturers will continue to face high costs and need to prioritize production where they have the necessary inputs. Resilient demand and the need to replenish inventories means backlogs should remain elevated.

ISM Manufacturing: Prices & Delivery Times



Source: Institute for Supply Management and Wells Fargo Securities

Pressure Gauge

Indicator		Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Time	ISM Manufacturing Supplier Deliveries	57.3	65.0	76.0	68.0	56.9	55.8	58.2	59.0	60.5	61.7	67.7	68.2	72.0	76.6	75.0	78.8	75.1	72.5	69.5	73.4	75.6
	ISM Services Supplier Deliveries	52.4	62.1	78.3	67.0	57.5	55.2	60.5	54.9	56.2	57.0	62.8	57.8	60.8	61.0	66.1	70.4	68.5	72.0	69.6	68.8	
	Ships at Anchor-LA & Long Beach (Mo. Avg.)	0.0	0.0	0.0	0.0	0.0	0.5	2.0	1.5	4.3	10.0	22.2	32.1	32.6	26.5	21.5	18.9	13.8	21.4	34.8	56.3	66.6
Volume	Taiwan Electronic Product Exports (YoY)	46.2%	18.1%	24.3%	13.2%	23.8%	15.3%	19.1%	26.1%	21.8%	19.0%	22.2%	47.5%	14.4%	24.5%	34.0%	29.6%	29.8%	33.9%	21.9%	26.8%	
	Cass Freight Index (YoY)	-7.5%	-9.2%	-22.7%	-23.6%	-17.8%	-13.1%	-7.6%	-1.8%	2.4%	2.7%	6.7%	8.6%	4.1%	10.0%	27.6%	35.3%	26.8%	15.6%	12.3%	0.6%	
	Unfilled Orders (3-Mo. Ann.)	7.6%	3.7%	0.9%	-2.2%	-0.3%	2.8%	4.0%	5.1%	6.2%	7.4%	6.7%	8.4%	10.8%	14.7%	15.1%	15.3%	13.2%	13.5%	12.1%	11.9%	
Price	World Container Index (WCI) (USD/40ft Box)	\$1,633	\$1,520	\$1,500	\$1,549	\$1,788	\$2,009	\$2,144	\$2,541	\$2,592	\$2,806	\$3,955	\$5,263	\$5,227	\$4,991	\$4,919	\$5,898	\$7,052	\$8,879	\$9,556	\$10,237	\$9,891
	WCI: Shanghai-Los Angeles (USD/40ft Box)	\$1,525	\$1,433	\$1,615	\$1,718	\$2,343	\$2,923	\$3,283	\$3,934	\$4,072	\$4,047	\$4,118	\$4,186	\$4,292	\$4,234	\$4,267	\$5,453	\$6,793	\$9,797	\$10,721	\$12,020	\$10,986
	PPI Transp. & Ware. of Goods (3-Mo. Ann.)	0.3%	-1.9%	-7.6%	-12.2%	-8.8%	1.0%	9.0%	8.0%	6.5%	7.8%	10.2%	10.7%	13.0%	16.3%	16.5%	16.9%	16.0%	12.6%	9.9%	8.9%	
	Dry Van Rate Per Mile (YoY of 4-Wk. Mov. Avg.)	-3.3%	-2.3%	4.1%	-3.6%	-4.5%	3.4%	20.2%	33.0%	41.3%	48.7%	48.1%	39.0%	36.5%	49.5%	51.4%	70.0%	69.2%	43.7%	28.6%	21.8%	17.8%
Inventory	Inventory-to-Sales Ratio (All Businesses)	1.42	1.50	1.73	1.55	1.41	1.36	1.35	1.35	1.35	1.35	1.35	1.30	1.33	1.26	1.25	1.26	1.25	1.25	1.26		
	ISM Manufacturing Inventories Index	46.5	46.9	49.7	50.4	50.5	47.0	44.4	47.1	51.6	50.8	51	50.8	49.7	50.8	46.5	50.8	51.1	48.9	54.2	55.6	57.0
	ISM Manufacturing Consumer Inventories	41.8	43.4	48.8	46.2	44.6	41.6	38.1	37.9	36.7	36.3	37.9	33.1	32.5	29.9	28.4	28.0	30.8	25.0	30.2	31.7	31.7
	Inventory Too Low (Net % of Firms)	-3.5%	-1.5%	-6.6%	-4.5%	1.2%	1.3%	2.7%	4.8%	4.4%	4.9%	6.5%	5.3%	4.5%	2.5%	7.0%	8.0%	11.0%	12.0%	11.0%	10.0%	
Labor	Production & Manuf. Posts (vs. Feb. 2020)	0.2%	1.3%	-30.0%	-31.6%	-23.7%	-13.8%	-6.1%	4.2%	12.9%	20.6%	27.4%	26.3%	38.2%	46.8%	63.5%	74.8%	76.7%	84.0%	78.0%	87.3%	92.4%
	Loading & Stocking Posts (vs. Feb. 2020)	1.4%	-0.4%	-32.5%	-32.7%	-17.6%	-0.8%	4.6%	12.3%	28.2%	38.8%	39.0%	26.3%	38.9%	46.4%	61.7%	72.7%	76.6%	90.2%	72.0%	82.4%	92.4%

Source: Institute for Supply Management (ISM), Bloomberg LP, Taiwan Ministry of Finance, U.S. Department of Labor, Drewry, U.S. Department of Commerce, National Federation of Independent Business (NFIB), Indeed.com and Wells Fargo Securities

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