Economic Indicator — December 1, 2023

ISM Manufacturing & All Major Components in Contraction

Summary

The November ISM brought more of the same; activity remains stuck in a rut with all major components in contraction. The one surprise came from a jump in prices paid. Slower price declines can be traced to key commodities, but the descent in goods prices may be finding a floor.

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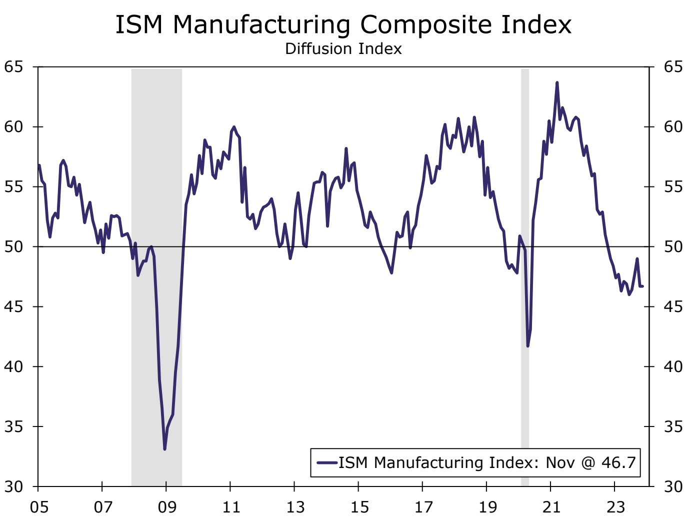


Source: Institute of Supply Management and Wells Fargo Economics

Across-the-Board Contraction

If the ISM manufacturing index were the only economic indicator you could consult this year, it would sure look like the economy is in recession. Activity remained stuck in the same rut in November with the headline ISM number at 46.7, unchanged from where it stood in October, not even budging a tenth in either direction (chart). All five sub-components that feed into the headline were in contraction in November. Production came in at 48.5, down 1.9 points which, while not a huge move, crosses the 50 line and signals mild contraction versus slow expansion (chart).

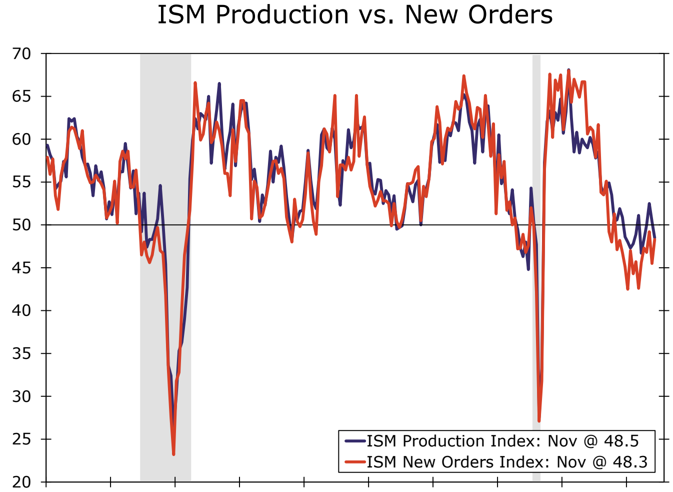
With less work to be done, industry-oriented businesses are cutting back on hiring with the employment component falling deeper into contraction at 45.8. Orders are also still falling, though not as much as last month, but the production pipeline is looking worryingly thin with the index for backlog of orders falling to 39.3.

It may be true that nothing lasts forever, even cold November rain, but the ISM first broke through into contraction territory in November 2022 making this November the 13th month of contraction.

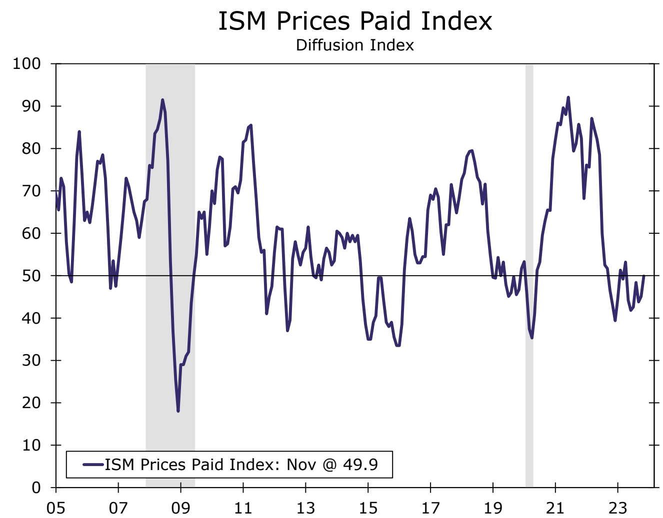
If you were waiting for something to surprise you in a recent ISM release, it may have arrived with the nearly 5 point gain in the prices paid measure, which puts the index at the foot of the door of expansion at 49.9. As seen in the nearby chart, this measure can be volatile month-to-month and the fact that we are still below-50 suggests prices paid continued to decrease in November, but at a much slower pace than the month prior.

Higher steel prices were mentioned as a catalyst. A respondent in the Computer & Electronic industry made reference to "exploding" steel costs specifically: "Economy appears to be slowing dramatically. Customer orders are pushing out, and all efforts are being made to right-size inventory levels, both to mitigate carrying costs on pushed-out orders and to load up on inventory where costs are exploding, like cold-rolled steel." More generally increases in steel prices were referenced as being offset by decreases in energy markets. Still, 84% of panelists reported 'same' or 'lower' prices in November, down only slightly from 89% a month prior. To us, this bounce can thus be somewhat classified as monthly noise, though the descent in goods prices due to a flattening in activity may be starting to find somewhat of a floor.

We do not anticipate the move in prices paid will change much for the Fed which is set to meet again in a little less than two-weeks' time. The FOMC would likely need to see a sustained stalling or reversal on the goods side of inflation to act. It is the services side of inflation that remains sticky and the Fed's focus at this point, making next week's ISM services release of greater importance.



Source: Institute for Supply Management and Wells Fargo Economics



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