Economic Indicator — January 5, 2026

December Drop in ISM Manufacturing Index

Economist(s)

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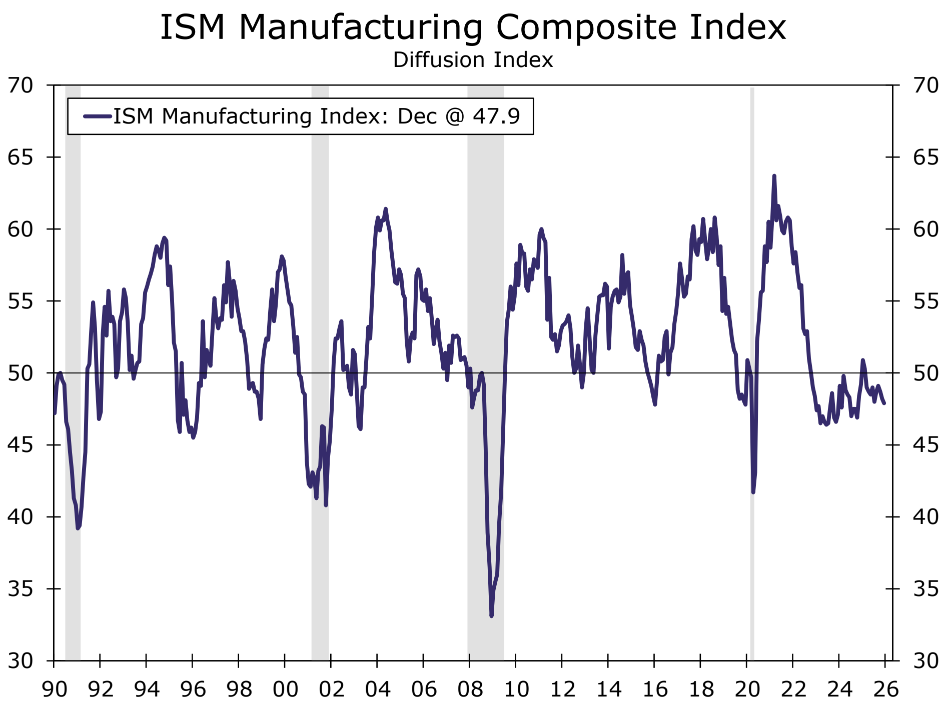
Summary

The ISM manufacturing index ended 2025 at its lowest reading of the year and marked the tenth-straight month signaling contraction. Tariffs continued to be all over the data, and while other industrial data suggest demand may be broadening out, we remain cautious of the recovery ahead.



Source: Institute for Supply Management and Wells Fargo Economics

Ending on a Low

Even as the U.S. economy shows remarkable resilience despite multiple headwinds, the ISM manufacturing index signaled contraction in the factory sector for the 10th month in a row in December (chart). At 47.8, the ISM hit its lowest reading of the year. This comes on the heels of a third quarter GDP report that was released two days before Christmas that showed the overall economy expanded at a 4.3% annualized rate during that period. The underlying details of that GDP report showed that equipment and intellectual property spending each expanded at an annualized growth rate north of 5%. Is the ISM index, an indicator once prized by economists and policymakers for its helpfulness in identifying cyclical turning points, losing its luster?

In a nutshell: it may be that the concentrated nature of growth in this cycle (favoring all things tech and AI at the expense of other categories) might be making a liar out of the ISM index in terms of aggregate growth. But as a measure of the breadth of expansion or the number of companies that are flourishing, the ISM retains its status as a reliable gauge. More on that in a moment. For now, a few key takeaways from this December report.

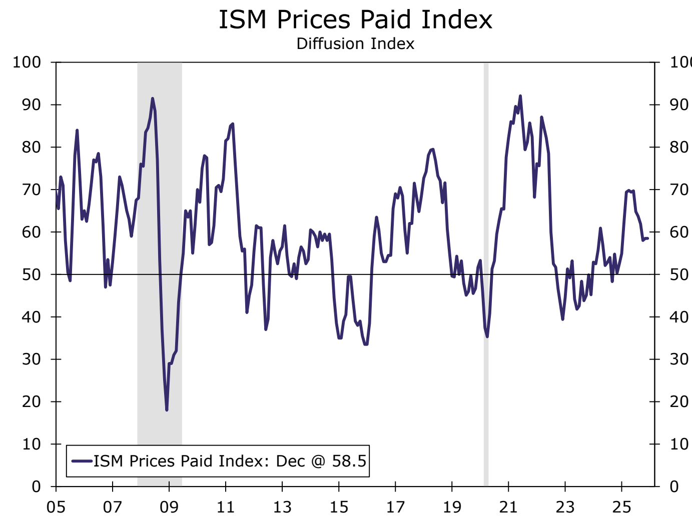
Prices paid was flat at 58.5 with 11 of the 18 industries reporting higher prices during the month. That is well off the recent highs that peaked at around 70 during the April tariff announcements, but still remains well into expansion territory, thus signaling continued inflationary pressure ahead (chart). Most select industry comments continue to center around tariff cost challenges.

Of the major ISM components, it is the employment index that has been stuck in the deepest rut. It has not seen the good side of 50 since January 2025, but in December the jobs component rose modestly to 44.9. The December jobs report is due out on Friday of this week. Since April, the manufacturing sector has shed 67K jobs.

Of the components that feed into the headline, the largest move came from inventories, which slid 3.7 points. This component has been in contraction each month of the year outside of March and April when many businesses pulled forward orders ahead of tariffs.

Production edged down modestly, but notably remained consistent with expansion, while new orders remained under-water for a fourth consecutive month despite inching higher. For 2025 as a whole, new orders were only above 50 in two out of 12 months. But other data suggest we may soon see a broadening in activity. Take durable goods for instance where the number of major categories adding orders has trended higher. The red line in the nearby chart shows the six-month average of durable categories adding orders, which has widened compared to the overall ISM over the past two years and signals underlying demand may be expanding.

That said, overall manufacturing output according to industrial production data remained muted through November. Even as rising output has broadened across manufacturing industries in recent months as well, output is still running at a modest pace over the past year. The select industry comments in this release also struck a general tone of pessimism around order activity headed into 2026. While a less fluid trade environment and somewhat more favorable business tax environment are positives for activity, we remain cautious on the extent of recovery in traditional cap-ex categories this year.



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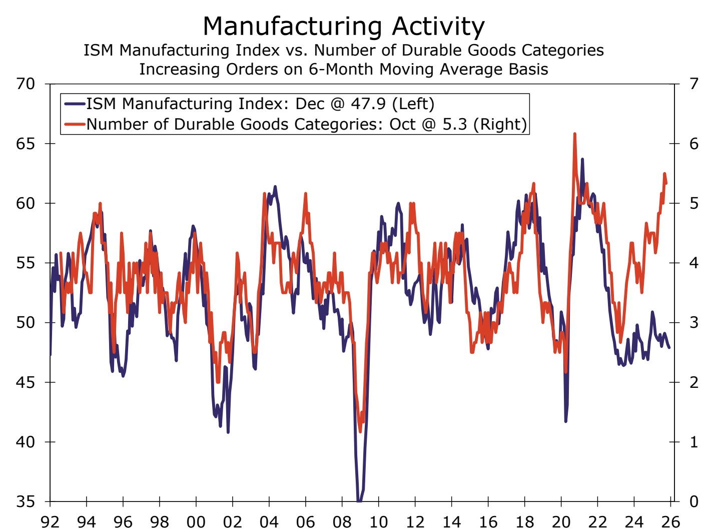

Source: Institute for Supply Management, U.S. Department of Commerce and Wells Fargo Economics

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