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## November ISM Manufacturing Index: Headline Index Bounces Back, Details Are Solid

- > The ISM Manufacturing Index rose to 59.3 percent in November from 57.7 percent in October
- > The new orders index rose to 62.1 percent, the employment index rose to 58.4 percent, the production index rose to 60.6 percent

The ISM Manufacturing Index rose to 59.3 percent in November, topping our above-consensus forecast of 58.1 percent, marking the 27<sup>th</sup> consecutive month in which the headline index stood above the 50.0 percent break between expansion and contraction. Recall that the ISM's October survey showed declines in the headline index and in the key sub-indices gauging current production and new orders. The latter was particularly concerning to us, given that the ISM's gauge of new orders has long been one of our favorite forward looking indicators. As we put it at the time, the question surrounding the October report was whether those declines were signaling something relatively benign, i.e., growth in the factory sector settling into a more sustainable pace, or whether they were signaling something more ominous, i.e., that the run of growth in the factory sector was coming to an end. We further noted that, while we were fully cognizant of the downside risks, such as an uncertain global growth outlook and the adverse effects of tariffs, we were going with the benign interpretation of the October data. So, in that sense, the rebounds in the components for current production and new orders in the November data are most welcome. It is worth keeping in mind, however, that while the temporary truce in the ongoing trade spat between the U.S. and China will, at least for now, keep things from getting worse on the trade front, it won't undo, at least for now, the harmful effects of the opening rounds of this trade spat which, based on comments from survey respondents, continue to do damage.

Of the 18 industry groups included in the ISM survey, 13 reported expansion in November, unchanged from October, and three industry groups reported contraction. Still, while the expansion in the factory sector remains broad based, data from the past two months suggest it is a bit less so than had been the case over the prior several months. Comments from survey respondents again highlighted the negative effects from tariffs, including diminished competitiveness and pass-through price increases, and customers have continued to accelerate orders in anticipation of higher tariffs being imposed at the turn of the year. As we have noted in prior months, to the extent firms have engaged in pre-emptive ordering, this will have propped up the ISM's headline index. But, even allowing for any such effects, the bottom line is that the factory sector continues to benefit from solid growth in demand, and still-rising backlogs of unfilled orders suggest manufacturers continue to struggle to keep pace.

After having fallen to 57.4 percent in October, the lowest reading since November 2016, the new orders index bounced back to 62.1 percent in November. Of the 18 industry groups included in the ISM survey, 11 reported higher order volumes, with four reporting lower order volumes. After having fallen to 59.9 percent in October, the current production index reversed course, rising to 60.6 percent in November; 11 of the 18 industry groups reported increased production and three reported lower output. Our forecast anticipated some relief from supply backlogs in November, which did occur but to a lesser degree than we anticipated, with the index gauging supplier delivery times falling to 62.5 percent from 63.8 percent. The index of order backlogs rose to 56.4 percent, indicating further growth in unfilled orders. Ongoing growth in new orders and expanding backlogs of unfilled orders point to continued hiring over coming months, and the ISM's employment index rose to 58.4 percent in November – the 26<sup>th</sup> straight month of growth in manufacturing employment. Moreover, that firms, on the whole, continue to assess customer inventories as being too low also suggests further room for growth in orders and output over coming months.

As we stated at the time, despite declines in key components, we saw no signs in the October ISM data that the end of the long-running expansion in the factory was at hand. The November ISM data support our view, and though trade policy is clearly having some adverse effects, ongoing growth in demand will sustain growth in employment and output in the manufacturing sector over coming months.

