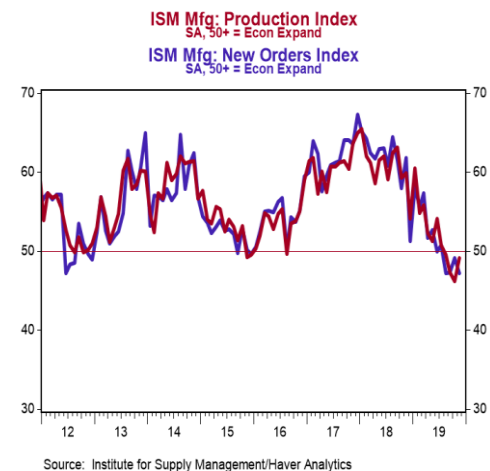
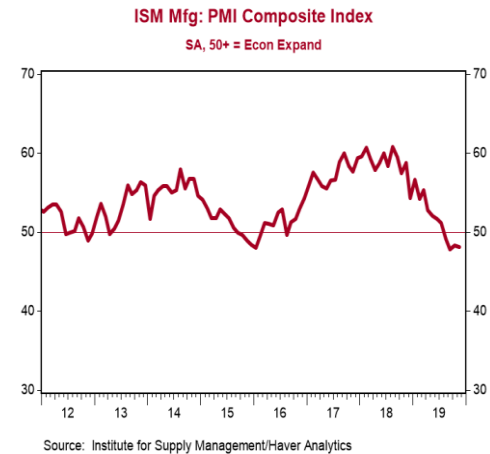


November ISM Manufacturing Index

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- The ISM Manufacturing Index declined to 48.1 in November, lagging the consensus expected 49.2. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in November. The new orders index fell to 47.2 from 49.1 in October, while the employment index declined to 46.6 from 47.7. The production index rose to 49.1 from 46.2, and the supplier deliveries index increased to 52.0 from 49.5 in October.
- The prices paid index rose to 46.7 in November from 45.5 in October.

Implications: Manufacturing activity continued to slow in November, according to the Institute for Supply Management (ISM) survey. However, the ISM index is calculated through a survey of purchasing managers who are often swayed more by sentiment than actual activity, so we think it should be taken with a grain of salt. The index has dipped below 50 earlier in this recovery, without signaling recession – on three occasions in 2012, once again in 2013, and for five consecutive months in 2015/16. Each time, the economy kept growing. Keep that in mind as you see the inevitable headlines that overstate the importance of today’s report. Thirteen of eighteen industries reported contraction in November, while five reported growth. The two most forward-looking indices - new orders and production – moved in opposite directions, but both remain below 50 signaling a slowdown in activity. The new orders index fell to 47.2 from 49.1 in October, while the production index rose to 49.1 from 46.2. Despite the continued weakness, we expect a return to growth in the months ahead. Why? The ISM data doesn’t match what we are seeing from other reports. The latest report on personal consumption shows goods consumption up at a 7.0% annualized rate so far in 2019, the fastest pace through October in fifteen years! So, if consumers are clearly buying, and companies are apparently - according to today’s report - not producing, something has got to give. In fact, today’s report showed the customers’ inventories index declined to 45. Customers’ inventories have now been declining for 38 consecutive months, which is positive for future factory output. Given that we are also not seeing a pickup in layoffs – something you would expect to see if business significantly slowed - we lean towards the hard data over the survey output when it comes to judging the health of the economy. The employment index declined to 46.6 from 47.7 in October, so you may expect that Friday’s job report will show a slowdown in manufacturing jobs growth, but the November report will reflect the return to work by striking GM workers, and the current consensus forecast is for 40,000 manufacturing jobs added on the month. Finally, on the inflation front, the prices paid index rose to 46.7 in November, pushed higher due primarily to metals (namely steel and aluminum). While the ISM manufacturing index has proved shaky over recent months, the preponderance of the data point to continued growth in the economy. In other news this morning, construction spending declined 0.8% in October (-0.2% including revisions to prior months), falling well short of the consensus expected gain of 0.4%. A slowdown in home building and public construction of highways and streets were partially offset by a pickup in public educational projects.



| Institute for Supply Management Index | Nov-19 | Oct-19 | Sep-19 | 3-month moving avg | 6-month moving avg | Year-ago level |
|--|-------------|--------|--------|--------------------|--------------------|----------------|
| <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i> | | | | | | |
| Business Barometer | 48.1 | 48.3 | 47.8 | 48.1 | 49.4 | 58.8 |
| New Orders | 47.2 | 49.1 | 47.3 | 47.9 | 48.6 | 61.8 |
| Production | 49.1 | 46.2 | 47.3 | 47.5 | 49.5 | 59.9 |
| Inventories | 45.5 | 48.9 | 46.9 | 47.1 | 48.3 | 52.9 |
| Employment | 46.6 | 47.7 | 46.3 | 46.9 | 49.0 | 57.7 |
| Supplier Deliveries | 52.0 | 49.5 | 51.1 | 50.9 | 51.3 | 61.5 |
| Order Backlog (NSA) | 43.0 | 44.1 | 45.1 | 44.1 | 44.8 | 56.4 |
| Prices Paid (NSA) | 46.7 | 45.5 | 49.7 | 47.3 | 46.8 | 60.7 |
| New Export Orders | 47.9 | 50.4 | 41.0 | 46.4 | 46.9 | 52.2 |

Source: National Association of Purchasing Management