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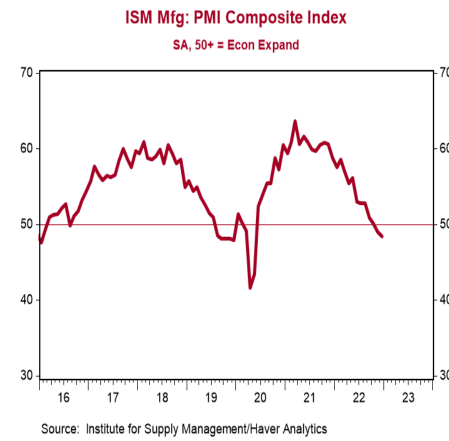
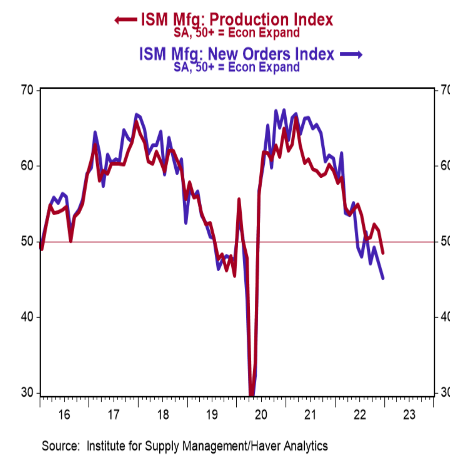
December ISM Manufacturing Index

- The ISM Manufacturing Index declined to 48.4 in December, narrowly lagging the consensus expected 48.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were mostly lower in December. The production index declined to 48.5 from 51.5 in November, while the new orders index fell to 45.2 from 47.2. The supplier deliveries index fell to 45.1 from 47.2 in November and the employment index rose to 51.4 from 48.4.

- The prices paid index declined to 39.4 in December from 43.0 in November.





Implications: The US manufacturing sector fell further into contraction territory in December, at least in terms of sentiment, with only two of eighteen industries reporting growth. Respondent comments in December were mainly focused on worries about the pace of future activity with some customers pulling back on new orders due to worries about an economic slowdown. Notably, there were also several statements on improvements in the supply-chain issues that have plagued the manufacturing sector over the past few years. This was reflected in the details in today's report, as well. New orders fell further into contraction territory in December, which is hardly surprising given that consumers have been shifting their preferences away from goods and back toward services. However, this is giving US factories time to catch up on all the existing orders they already have in the pipeline. The result is continued reductions in supply-chain pressures. For example, the supplier deliveries index fell to 45.1 in December, the lowest reading since 2009! When this index is below 50, it means deliveries are speeding up. Other data also shows vast improvement in supply-chains. The order backlog index remained below 50, at 41.4, in spite of the fact that the production index finally fell into contraction territory. Some of these data are still impacted by the difficulty finding skilled labor (according to survey respondents), but it seems clear that the manufacturing sector has found its way through the COVID shutdown minefield. While the employment index rose unexpectedly back into expansion at 51.4 in December, we think this may just be the result of seasonal hiring to meet year-end production and not a trend that will last. Panelists in recent months have said they are beginning to take a pause on new hiring and allowing labor turnover to reduce headcount, with layoffs also starting to be mentioned. This is a sign that a weaker outlook for new orders may finally be hurting demand for labor in the US factory sector. Finally, the prices index in today's report continued to signal that inflation pressures have likely peaked in the goods sector, falling for the ninth month in a row to 39.4. While lower prices for goods will help moderate overall inflation, we expect that the services sector will now be the main driver going forward, keeping inflation well above the Fed's 2% target. In other recent news, construction spending rose 0.2% in November, with large gains in manufacturing facilities more than offsetting declines in residential projects and roads.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Dec-22	Nov-22	Oct-22	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Business Barometer	**48.4**	49.0	50.2	49.2	50.7	58.8
New Orders	**45.2**	47.2	49.2	47.2	48.0	61.0
Production	**48.5**	51.5	52.3	50.8	51.1	59.4
Inventories	**51.8**	50.9	52.5	51.7	53.5	54.6
Employment	**51.4**	48.4	50.0	49.9	50.4	53.9
Supplier Deliveries	**45.1**	47.2	46.8	46.4	50.3	64.9
Order Backlog *(NSA)*	**41.4**	40.0	45.3	42.2	47.0	62.8
Prices Paid *(NSA)*	**39.4**	43.0	46.6	43.0	48.9	68.2
New Export Orders	**46.2**	48.4	46.5	47.0	48.5	53.6

Source: National Association of Purchasing Management