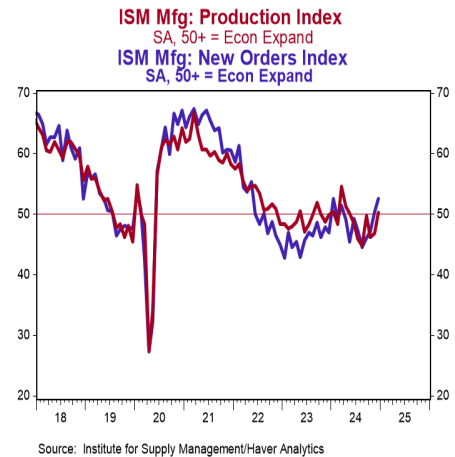
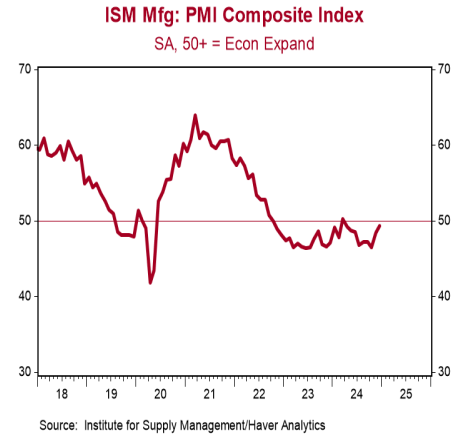


December ISM Manufacturing Index

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- The ISM Manufacturing Index increased to 49.3 in December, beating the consensus expected 48.2. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in December. The new orders index increased to 52.5 from 50.4, while the production index rose to 50.3 from 46.8. The supplier deliveries index increased to 50.1 from 48.1 in November, but the employment index declined to 45.3 from 48.1.
- The prices paid index increased to 52.5 in December from 50.3 in November.

Implications: Factory activity continued to decline in December in what has been an ugly stretch for the US manufacturing sector. Although the ISM Manufacturing index beat expectations and rose to 49.3 – the highest level in nine months – the measure remained below 50 (signaling contraction) and has done so for 25 out of the last 26 months. The good news is both demand and production showed signs of improvement in December. New orders grew for the second month in a row, with the index rising to 52.5 from 50.4. Meanwhile, production expanded (albeit barely) with the index rising to 50.3, snapping a six-month streak of contraction. That said, these improvements should be taken with a grain of salt. Survey comments reveal that some of the pick-up in activity could be due to seasonal restocking, and the majority of comments indicate a weak outlook going into next year. Some companies have been able to scrape by despite weak demand by focusing on their order backlogs, which were artificially boosted with pent-up activity from the COVID years. That index, which rose to 45.9 in December, has been in contraction territory for the last 27 months. At some point, this reprieve for weaker demand has to give. Manufacturing companies have adjusted their hiring efforts accordingly, with the employment index falling deeper into contraction territory to 45.3, the seventh month in a row below 50. Finally, inflation remains a problem in the manufacturing sector. Prices paid by companies rose again in December and the pace accelerated, with the index rising to 52.5 from 50.3. Given that the prices index has been above 50 for all but one month in 2024 despite sluggish activity, it's clear the embers of inflation remain. In other recent news, construction spending was unchanged in November, as a large increase in homebuilding was offset by drops for manufacturing, educational, and amusement/recreation projects. On the employment front, initial jobless claims fell 9,000 last week to 211,000. Meanwhile, continuing claims dropped 52,000 to 1.844 million. These figures are consistent with continued job growth in December, but at a slower pace than earlier this year. In other recent news, the home price indexes are telling a story of moderate gains. The national Case-Shiller index rose 0.3% in October and is up 3.6% from a year ago; the FHFA index rose 0.4% in October and is up 4.4% from a year ago. Pending home sales, which are contracts on existing homes, increased 2.2% in November following a 1.8% increase in October, suggesting another gain in existing home sales (counted at closing) in December. Finally, the Federal Reserve released monthly figures on M2 last week, showing it up 0.6% in November, the largest monthly increase since December 2021. M2 surged during COVID, then declined from early 2022 through early 2023. It has stopped declining, but isn't rising as rapidly (up 3.7% in the past year), which could put downward pressure on the growth rate of inflation and nominal GDP in the year ahead.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Dec-24	Nov-24	Oct-24	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	49.3	48.4	46.5	48.1	47.6	47.1
New Orders	52.5	50.4	47.1	50.0	48.0	47.0
Production	50.3	46.8	46.2	47.8	47.3	49.9
Inventories	48.4	48.1	42.6	46.4	46.3	43.9
Employment	45.3	48.1	44.4	45.9	45.2	47.5
Supplier Deliveries	50.1	48.7	52.0	50.3	51.0	47.0
Order Backlog (NSA)	45.9	41.8	42.3	43.3	43.2	45.3
Prices Paid (NSA)	52.5	50.3	54.8	52.5	52.1	45.2
New Export Orders	50.0	48.7	45.5	48.1	47.9	49.9

Source: National Association of Purchasing Management