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Economics Group

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ISM: Manufacturing Activity Picks Up In November

U.S. manufacturing activity seems to be weathering the effects of the European sovereign debt crisis. The ISM index rose 1.9 points in November to 52.7, with solid gains in production, new orders and new export orders.

Manufacturing Activity Remains Solid

Manufacturing continues to hold up well, even with growing concerns about a slowdown in Europe and the broader global economy. The ISM manufacturing index rose 1.9 points to 52.7 in November, bringing the index back up to its highest level since June. At its current level, the ISM index is consistent with real GDP growth at around a 3.6 percent annualized rate. Our own forecast for fourth quarter growth is about a half percentage point below that pace.

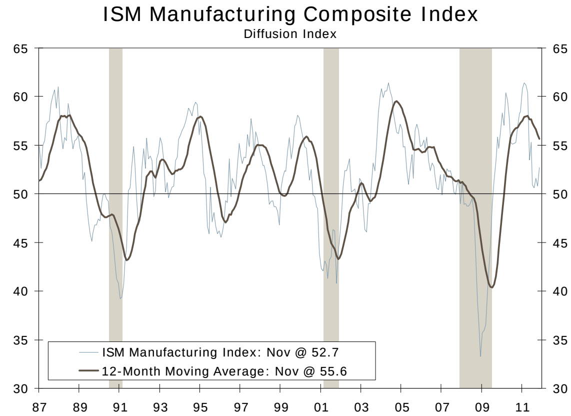
Most of the key components of the ISM survey improved in November, including production and new orders. The production index jumped 6.5 points to 56.6, which is the highest it has been since April. Part of the increase may be due to a pickup in motor vehicle production following cutbacks tied to parts shortages from the Japanese earthquake. Growth in energy exploration and all of the related inputs, such as steel and fabricated metals, also appear to be behind the gain in output. A few firms noted that supply disruptions from the flooding in Thailand may be impacting their business and this may be one of the reasons why the imports series fell further in October, falling 0.5 points to 49.0.

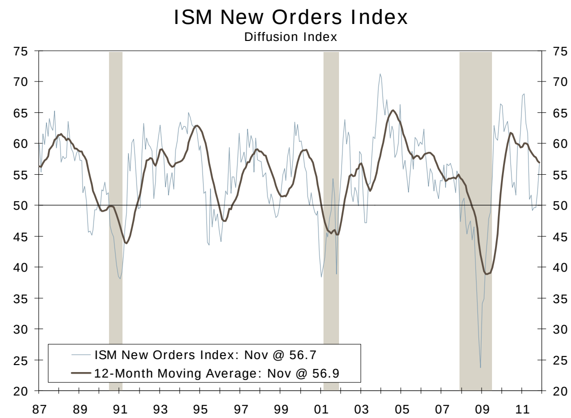
New Orders Component Suggests Growth Continues

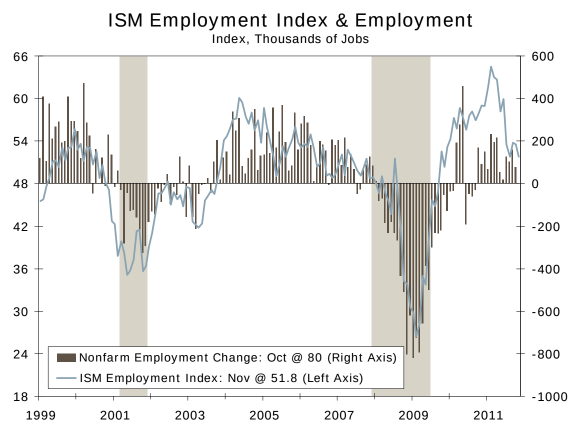
The new orders series rose 4.3 points to 56.7, which is the highest reading since April. The improvement shows that manufacturers are moving past the uncertainty that followed the collapse of the debt ceiling talks and U.S. credit rating downgrade. With the increase, the new orders index is now comfortably above the overall index, which has in the past presaged an acceleration in the overall ISM index.

New export orders rose 2.0 points to 52.0 in November while the import index fell 0.5 points to 49.0. The trends confirm reports from major ports across the country. The ports of Los Angeles and Long Beach, which handle about 40 percent of the nation's container traffic, have been reporting some slowing in inbound containers and continued growth in outbound containers. The Port of Savannah, which is the nation's fourth largest container port and fastest growing East Coast port, reports similar trends. The slowdown in import volumes may be due to caution on the part of retailers ahead of the holiday shopping season. Whatever the reason, the continued strength in exports combined with some slowing in imports should add to fourth quarter GDP growth.

The only weak spot in November's ISM report was that the employment index slipped 1.7 points to 51.8. The drop still leaves the index above the key 50 break-even level, where it has been for the past 26 months, and the series remains consistent with modest gains in manufacturing payrolls.







Source: Institute for Supply Management, U.S. Dept. of Labor and Wells Fargo Securities, LLC

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