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November ISM Manufacturing Index: Another Strong Month For Manufacturing

- The ISM Manufacturing Index rose to 57.3 percent in November from 56.4 percent in October.
- The new orders component rose to 63.6 percent while the employment component rose to 56.5 percent.

The ISM Manufacturing Index defied expectations and rose further in November, with the overall index rising to 57.3 percent. Of the 18 industry groups surveyed by the ISM, 15 reported overall growth in November. The rise in the ISM index is consistent with global surveys of manufacturing activity, most of which came in stronger than anticipated in November.

Beyond the headline number, the component for new orders rose to 63.6 percent, the highest reading since April 2001. Of the 18 industry groups surveyed, 12 reported higher orders in November, 4 reported no change, and 2 reported a drop in orders. The production component also turned in a solid gain, rising to 60.2 percent, with 13 industry groups reporting higher output.

While inventories of finished goods rose in November, the pace of increase slowed from October. This is significant in light of the jump in new orders seen in November, as the gap between the new orders and inventories components of the ISM survey is a good indicator of trends in production. After having narrowed in October, the gap widened to 13.1 in November and has been in double-digits in four of the past five months. This message sent by the wider gap between new orders and inventories is reinforced by a growing backlog of unfilled orders, with this component rising to 54.0 percent in November. Taken as a whole, these metrics suggest factory production will remain healthy into 2014. Along these lines, the employment component rose to 56.5 percent.

Still, it is worth noting the seeming disparity over recent months between the behavior of the ISM Manufacturing Index and the monthly data on manufacturing orders reported by the Census Bureau. After having surpassed their pre-recession peak, orders for core capital goods (i.e., nondefense goods excluding aircraft and parts) have slipped over the past two months, and the overall inventory-to-sales ratio in the manufacturing sector has edged higher. There are two points to keep in mind here – first, the ISM's index is a diffusion index and, as such, measures the breadth not the intensity of changes in manufacturing activity. Second, there is a seasonal quirk in the Census data that results in orders for core capital goods almost always declining in the first calendar month of a quarter, so in that sense the decline in orders reported for October gets a free pass and the November report issued by the Census Bureau will be worth watching. That said, though, the widespread gains reported in the November ISM survey, in both overall growth and the underlying components, suggest a healthier level of manufacturing activity than is implied by the Census data on new orders.

This is also evident in the comments from survey respondents reported by ISM, in which the tone was generally upbeat. A common theme was that order activity was stronger than normal for this time of year – no seasonal slowdown and a consistent uptick in demand. Some firms in the machinery industry group remain concerned about the impact of the ongoing fiscal follies, and one respondent from the computer & electronics products group noted an ongoing drag from cuts in defense spending, more of which are on tap for 2014.

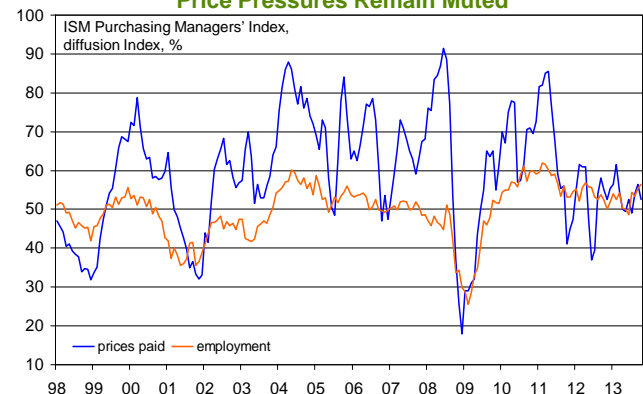
Still, the overall attitude amongst manufacturing firms seems to be that demand is firmer than would be expected at this time of the year and that this should continue into 2014. This is a hopeful sign that the pace of growth in the broader economy will follow suit and pick up as well, not to mention as we have forecasted would be the case.



Rising Orders Bode Well For Manufacturing In 2014



Price Pressures Remain Muted



Core Capital Goods Orders

