

01.Feb.2023

ISM Manufacturing: Contracting But Holding Onto Employees

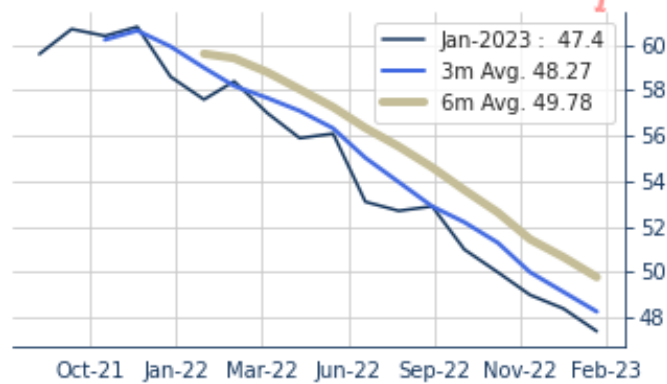
Bottom Line: ISM's survey-based index of manufacturing managers stayed below 50, demarcating contraction, for the third month as the drop in new orders accelerated lower. The new order index in January remained close to levels historically associated with recessions. Moreover, new orders less inventories, a leading indicator within this report, suggested further declines ahead. Prices paid continued to fall but at a slightly slower pace than last month. full further.

Manufacturers were still holding onto employees (likely worried they would be unable to find skilled labor in the next rebound if they laid anyone off in this contraction).

Overall, the manufacturing sector will likely remain a modest drag on growth in the 1st Quarter with tremendous uncertainty beyond that as manufacturers will either be well positioned for a rebound in the 2nd Quarter or face growing pressure to lay off workers with payrolls too high relative to activity levels.

ISM PMI

January: +47.4, consensus: +48.0



Contingent Macro Advisors 2023 source: Inst. Supply Mgmt. via Bloomberg LP

The ISM Manufacturing Index FELL 1 points to 47.4, BELOW the 3-Month average of 48.27, BELOW the 6-Month average of 49.78 and 10.2 BELOW the year-ago level.

- New orders FELL 2.6 points to 42.5, BELOW the 3-Month average of 44.8, BELOW the 6-Month average of 46.72, and 16.1 BELOW the year-ago level.
- Production FELL 0.6 points to 48, BELOW the 3-Month average of 49.17, BELOW the 6-Month average of 50.25, and 9.2 BELOW the year-ago level.
- Employment was nearly unchanged, DOWN 0.2 points to 50.6, ABOVE the 3-Month average of 50.1, BELOW the 6-Month average of 50.62 but 3.2 BELOW the year-ago level.
- Inventories FELL 2.1 points to 50.2, BELOW the 3-Month average of 51.2, BELOW the 6-Month average of 52.58, and 3.4 BELOW the year-ago level.
- Prices paid ROSE 5.1 points to 44.5, ABOVE the 3-Month average of 42.3,

BELOW the 6-Month average of 46.28 but 31.6 BELOW the year-ago level.

WHAT RESPONDENTS ARE SAYING

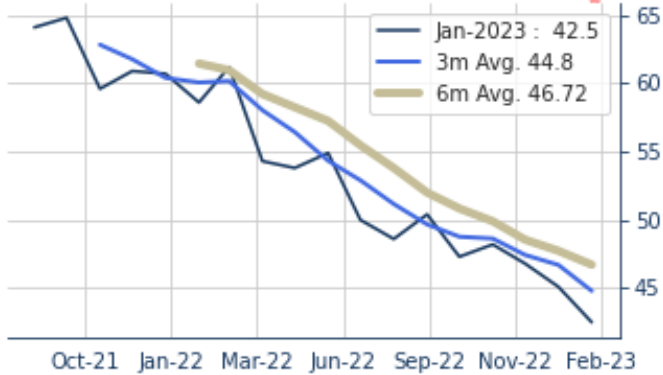
- “Business is still strong, but we have begun to see softening in some pricing, and lead times seem to be improving.” [Computer & Electronic Products]
- “Conditions are reasonable. Sales are a little better than planned. Cost pressures are easing for most products. There have been a lot fewer supply disruptions so far this year, and few expected in the short term. The crystal ball remains a little blurry for the rest of 2023.” [Chemical Products]
- “Sales have dropped (as expected) at the beginning of the year. Forecast from the sales department is showing even lower sales than we expected. If this holds true, inventory levels will rise slightly over next month and a half.” [Food, Beverage & Tobacco Products]
- “Supply chain issues continue to plague our production schedules. Transportation from our overseas suppliers is also contributing to delays. Lead times have doubled for critical electronics, gaskets, sealants, and specialized steel.” [Transportation Equipment]
- “Strong big ag demand continues to drive heightened demand for parts. Large construction/off highway original equipment manufacturers have strong demand as well. Creating continued capacity constraints with the supply base.” [Machinery]
- “Some business segments showing demand softening globally. Many materials showing improved lead times as well as cost deflation.” [Electrical Equipment, Appliances & Components]
- “Thus far, the outlook for the first half of 2023 looks very soft. Demand for our products has taken a sharp downward turn. Our inventories are high, as well as our customers’. It seems everyone is bracing for a recession.” [Fabricated Metal Products]
- “Customers are being quite aggressive in pursuing price decreases, far beyond the price relief we are actually receiving from our suppliers.” [Miscellaneous Manufacturing]
- “Industrial construction is strong. Commercial construction is slower.” [Nonmetallic Mineral Products]
- “In the past two weeks, we are seeing a slowing of new orders.” [Primary Metals]

SOURCE: ISMWorld.org

New orders



monthly levels

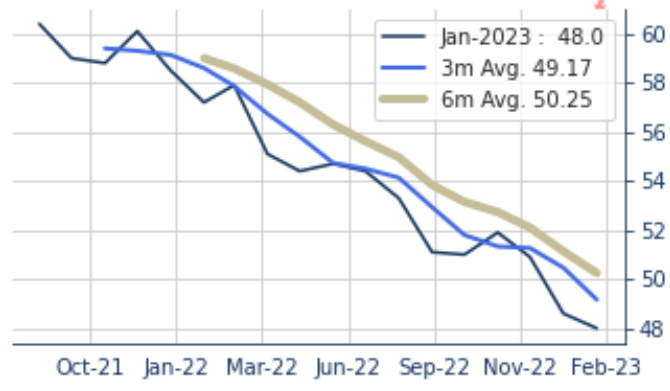


Contingent Macro Advisors 2023 source: Inst. Supply Mgmt. via Bloomberg LP

Production



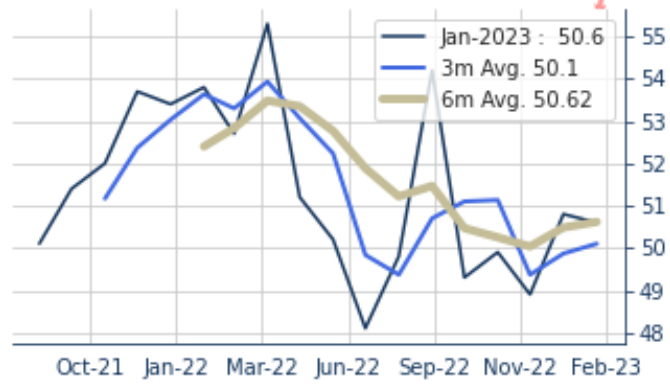
monthly levels



Employment



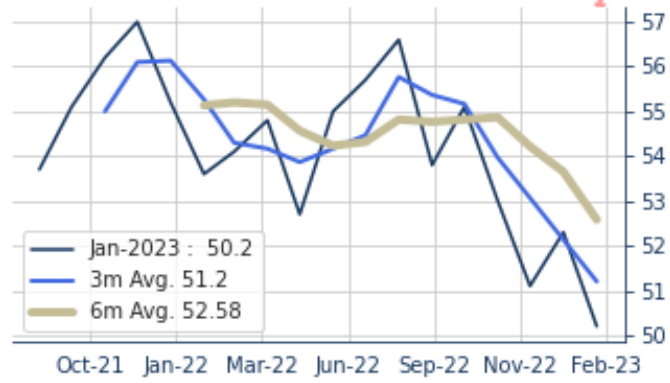
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Inventories



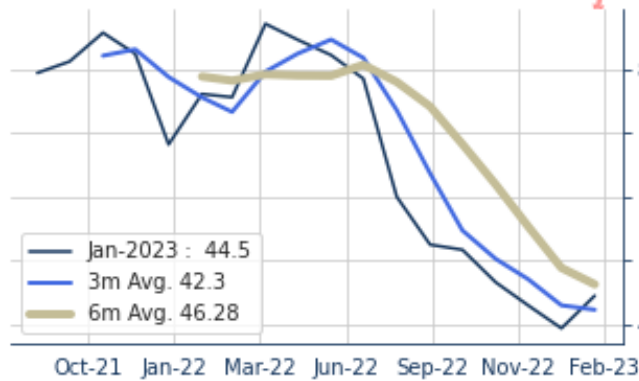
monthly levels



Prices paid



monthly levels



Contingent Macro Advisors 2023 source: Inst. Supply Mgmt. via Bloomberg LP

ISM Manufacturing Survey	Jan-23	Dec-22	Nov-22	3m. avg.	6m. avg.	12m. avg.	2022	5y
ISM PMI	47.4	48.4	49.0	48.3	49.8	52.7	53.5	55.1
New orders	42.5	45.1	46.8	44.8	46.7	50.3	51.6	56.1
Production	48.0	48.6	50.9	49.2	50.2	52.6	53.4	55.7
Employment	50.6	50.8	48.9	50.1	50.6	50.9	51.2	51.1
Supplier	45.6	45.1	47.2	46.0	48.7	55.8	57.3	61.1
Inventories	50.2	52.3	51.1	51.2	52.6	53.7	54.0	51.5
Inventories of Customers	47.4	48.2	48.7	48.1	44.4	39.7	38.5	39.1
Prices paid	44.5	39.4	43.0	42.3	46.3	62.1	64.8	64.2
Backlog orders	43.4	41.4	40.0	41.6	45.7	51.5	52.6	54.2
Export orders	49.4	46.2	48.4	48.0	47.9	50.6	50.9	52.1

Imports	47.8	45.1	46.6	46.5	49.2	50.6	51.3	52.1
# Industries Reporting Growth	nan	2.0	6.0	4.0	7.0	11.3	11.5	12.7
# Reporting New Orders	nan	3.0	1.0	2.0	3.6	7.1	7.4	10.7
Manuf New Orders % Better	nan	15.8	12.7	14.2	16.1	20.8	21.2	29.9
Manuf New Orders % Same	nan	52.7	62.3	57.5	59.5	60.9	60.9	52.9
Manuf New Orders % Worse	nan	31.5	25.0	28.2	24.5	18.3	18.0	17.2
New Orders Less Inventories	-7.7	-7.2	-4.3	-6.4	-5.9	-3.4	-2.4	4.6

Source: Institute for Supply Management