

3 Takeaways from ISM's Manufacturing Report

Posted by [lplresearch](#)



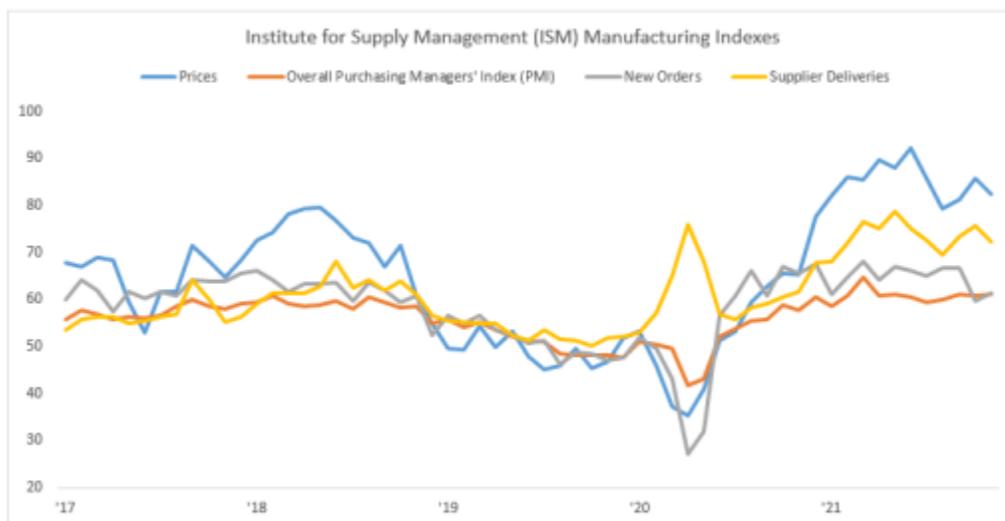
Thursday, December 2, 2021

With recent concerns about Federal Reserve (Fed) policy and the Omicron variant, it's easy to forget that we're in a period of economic acceleration, although now with some added uncertainty. Yesterday's manufacturing data confirmed that overall positive trend. The Institute for Supply Management's Manufacturing Purchasing Managers' Index (PMI) remained elevated at 61.2 in November, basically in line with the consensus expectation. The competing manufacturing PMI from Markit, at 59.1, was a solid upside surprise versus consensus.

"Manufacturing is still facing supply chain challenges, but demand remains strong and factory activity is accelerating to meet it," said LPL Financial Chief Market Strategist Ryan Detrick. "There is added uncertainty looking ahead, but manufacturing still looks well positioned for continued growth."

The report had strong internals. As shown in the LPL Chart of the Day, new orders, an important leading indicator, climbed back above 60 after dipping below that level last month. The reading on production also improved. The combined story is that demand remains strong, and while businesses remain constrained by supply chains they are highly motivated to find solutions or workarounds.

Manufacturing Remains Strong Despite Supply Chain Challenges



Source: LPL Research, Bloomberg 12/01/21

All indexes are unmanaged and can't be invested in directly.

But while there are some tentative signs that supply chain problems have peaked, key readings remain at challenging levels. Supplier deliveries and prices paid, while off the peaks hit in May and June respectively, are still areas of concern. And hiring growth, while showing expansion for the third straight month, remains tepid as businesses continue to struggle to find qualified workers.

Overall, the report did not change the general narrative on the state of the economy, but did reinforce that overall economic activity, as well as the near-term outlook, are quite solid despite headwinds. We received similar feedback from the release of the Fed's Beige Book yesterday, a qualitative assessment of the economy in each of the Fed's 12 districts based on conversations with local banks and businesses. Similar concerns appeared but the overall assessment remained optimistic.

We're currently in a "cup half full or half empty" economy, depending on your focus, with the truth that both are correct. The economy is still being confronted by unusual challenges and an uncertain outlook, but at the same time households and businesses remain extraordinarily resilient. Overall, we still expect solidly above-trend growth well into 2022, and yesterday's data provided confirmation that we're still heading in that direction.

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