Economic Update

December 1, 2023

ISM Manufacturing PMI Unchanged in November 2023 at 46.7

- **The ISM Manufacturing PMI came in at 46.7 in November 2023, matching the prior month's result**
- **The ISM Manufacturing PMI's Production component index fell to 48.3 in November 2023, below the survey's breakeven threshold of 50 for the first time since July**
- **Manufacturers' hiring receded further in November 2023, nearing 2023 and post-pandemic lows at 45.8 for the ISM Manufacturing PMI's Employment component index**

The ISM Manufacturing PMI report for November 2023 posted a reading of 46.7 for the second consecutive month. This report has not posted overall expansionary conditions since September 2022 (51.0), and its now year-long downward trend is being led by diminished current production and weak hiring trends. The New Orders component of the ISM Manufacturing PMI rose to 48.3 in November 2023, but this forward-looking indicator nonetheless remains in contractionary territory below the breakeven threshold of 50.

The ISM Manufacturing PMI diffusion index indicates the net percentage of manufacturers who are experiencing expanding or contracting activity across various categories, with a reading below 50 revealing net contraction across the manufacturing sector. Only the Customer Inventories component of the overall index posted a reading above 50 in November – and barely so at 50.8. These results come even as the United Auto Workers strike came to a close in November. Indeed, Transportation Equipment was one of only two manufacturing sectors to see gains in November, according to the ISM's Business Survey Committee.

U.S. demand for manufacturing output has been entrenched in its own contraction, as compared to overall U.S. economic activity, for most of 2023. Current production has been expansionary, according to the ISM Manufacturing PMI's Production sub-index, in only 4 of the past 12 months. The Employment component index offers a forward-looking view by means of manufacturers anticipating increased productive capacity through labor, and that view is also weak and fading further. The Employment component index of the ISM Manufacturing PMI report came in at 45.8 for November 2023. This is down from the most recent expansionary reading of 51.2 in September, and is encroaching on the post-pandemic low for this indicator of 44.4 (July 2023). This apparent lack of labor demand coincides with the Bureau of Labor Statistics' official manufacturing employment trend, which has been entirely flat throughout this year.

Gus Faucher
Chief Economist

Stuart Hoffman
Senior Economic Advisor

Kurt Rankin
Senior Economist

Ershang Liang
Economist

In a signal that the Fed's fight against inflation is still justified, the Commodity Prices component of the ISM Manufacturing PMI report rose for a second consecutive month in November 2023, coming in just under the expansionary threshold at 49.9 for the month. Still nowhere near the 2022 results for manufactured goods' price pressures, the five-month trend upward from June's reading of 41.8 is a reminder that pricing pressures are not completely extinguished. Any disruptions, shortages or increased demand for upstream inputs have the potential to reroute the path of inflation away from the Fed's goal of a 2% average, rather than the steady pace toward that goal that has been in place throughout most of this year. The Fed's "higher for longer" messaging can therefore be expected to be maintained in the near term. It is not just the latest CPI and PCE Deflator inflation that will guide Fed policy, but their forward-looking, precursor influences as well such as those indicated by the ISM pricing components as well. Any higher costs faced by businesses would inevitably be passed on to consumers, delaying inflation's return to a 2% average.

PNC Economics
economics@pnc.com

Visit pnc.com/economicreports for more information from PNC Economics.