

U.S. Data Review

- ISM manufacturing: factory sector expands following 26 months of contraction

Lawrence Werther
 lawrence.werther@us.daiwacm.com
 +1-212-612-6393
Brendan Stuart
 brendan.stuart@us.daiwacm.com
 +1-212-612-6172

ISM Manufacturing

- The ISM Manufacturing PMI rose 1.7 percentage points in January to 50.9 percent, firmer than the Bloomberg median expectation of an increase of 0.7 percentage point to 50.0 percent. Following a protracted period of soft results, the latest shift left the ISM measure in expansionary territory (that is, an observation above the critical threshold of 50) for the first time since October 2022. Speaking to the recovery in manufacturing activity, Timothy R. Fiore, Chair of the Institute for Supply Management Manufacturing Business Survey Committee, noted: “Demand clearly improved, while output expanded and inputs remained accommodative.” With that said, we suspect that a portion of the latest results were tied to hopes that the Trump agenda will boost the factory sector. At some point, those expectations will have to be ratified for a sustained recovery in the sector.
- The new orders and production subindexes rose in January, with both signaling growth. Specifically, the new orders component tilted higher for the fifth consecutive month, rising 3.0 percentage points to 55.1 percent in January (its third consecutive reading in expansionary territory). Growth across businesses, however, was mixed, with nine of the 18 industries covered by the survey reporting growth in new orders in the latest month. Production also firmed up, advancing 2.6 percentage points to 52.5 percent – its first 50+ reading since April 2024. That said, despite the uptick, only six industries indicated pickups in activity (charts, below).

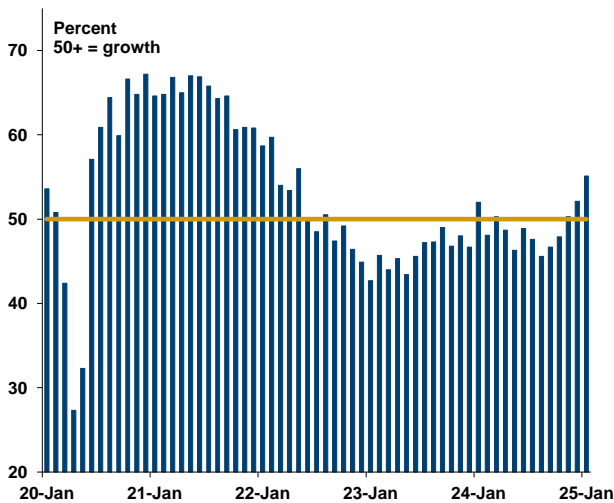
ISM Manufacturing: Monthly Indexes*

	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25
ISM Mfg. Composite	47.5	46.9	48.4	49.2	50.9
New orders	46.7	47.9	50.3	52.1	55.1
Production	49.4	47.0	47.5	49.9	52.5
Employment	44.6	44.8	48.1	45.4	50.3
Supplier deliveries	52.2	52.0	48.7	50.1	50.9
Inventories	44.7	43.2	47.7	48.4	45.9
Prices paid*	48.3	54.8	50.3	52.5	54.9

* The prices paid index is not seasonally adjusted. The measure is not part of the ISM manufacturing composite index.

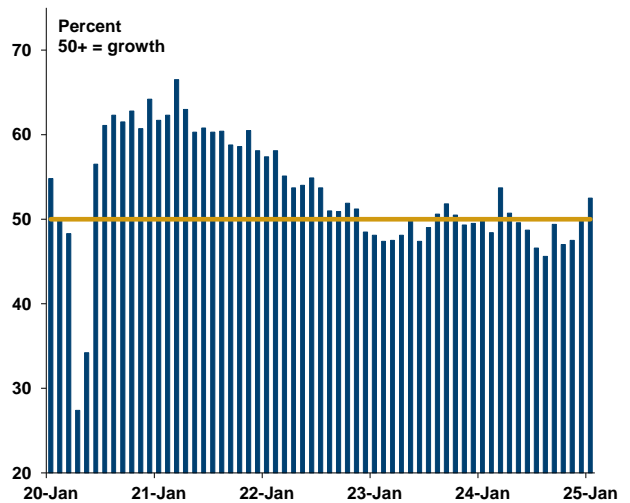
Source: Institute for Supply Management via Haver Analytics

ISM Manufacturing: New Orders Index



Source: Institute for Supply Management via Haver Analytics

ISM Manufacturing: Production Index

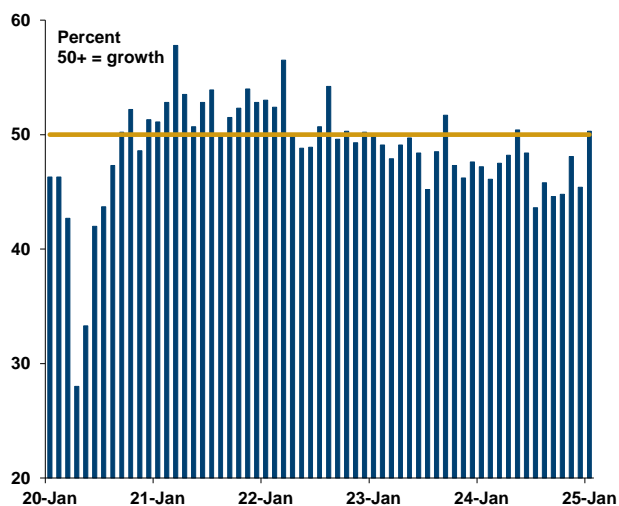


Source: Institute for Supply Management via Haver Analytics

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo (“Daiwa Securities”) and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.

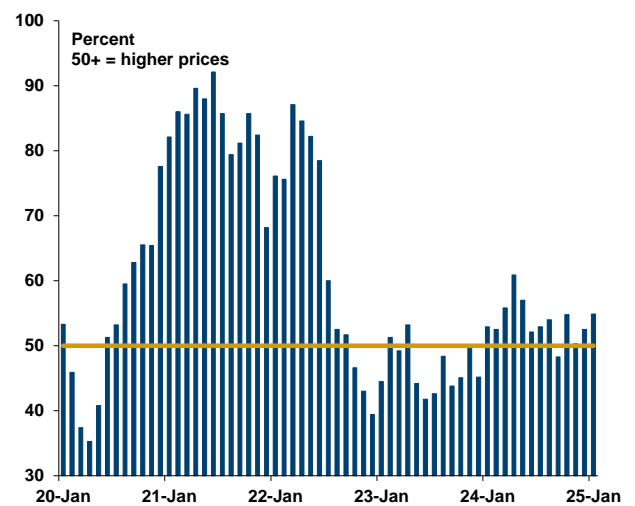
- The employment subindex surprised to the upside, posting the largest month-to-month increase of the five key subcategories that directly factor into the composite measure (+4.9 percentage points to 50.3 percent, its first expansionary reading since May 2024; chart, below left). Of note, only four industries reported employment growth in January – results indicating that caution in hiring is still the rule of the day in the factory sector. As mentioned by Fiore in the official release: “Employment was stable as final head-count adjustments were made, in many cases among the white-collar workforces... However, staff reductions continued with many companies, but at weaker rates.”
- The supplier deliveries index rose a more modest 0.8 percentage point to 50.9. The increase indicates “slower” deliveries for the second consecutive month (and sixth in the past seven). With that in mind, this measure should be interpreted differently than other components: observations above 50 indicate slower deliveries while those below 50 specify faster deliveries. Thus, a reading in the vicinity of 50 suggests normally functioning supply chains.
- The prices index, which doesn’t factor into the composite, advanced for the second consecutive month, rising 2.4 percentage points to 54.9 percent in January. While still indicating higher prices, the latest observation, in our view, is still relatively benign. The index remains well below the recent high of 92.1 percent in June 2021 and cycle peak of 87.1 in March 2022 (chart, below right). In the current month, eleven industries reported higher costs associated with the acquisition of raw materials.

ISM Manufacturing: Employment Index



Source: Institute for Supply Management via Haver Analytics

ISM Manufacturing: Prices Index



Source: Institute for Supply Management via Haver Analytics