



## November ISM Manufacturing: Demand Weakens Again as Production Advances while Hiring Retreats

### Key Takeaways from November's ISM Report

- ▲ **Manufacturing PMI®: 48.2 (-0.5 pts)** — ninth consecutive month of contraction; breadth of softness widened modestly.
- ▲ **New Orders: 47.4 (-2.0 pts)** — third straight contraction as demand remains uneven.
- ▲ **Production: 51.4 (+3.2 pts)** — returned to expansion, supported by improved component flow and backlog conversion.
- ▲ **Employment: 44.0 (-2.0 pts)** — headcount reductions deepened amid ongoing caution.
- ▲ **Supplier Deliveries: 49.3 (-4.9 pts)** — faster deliveries, signaling ample capacity and fewer supply chain constraints.
- ▲ **Prices Paid: 58.5 (+0.5 pts)** — input costs rose again, driven by metals and tariff-affected imports.
- ▲ **Inventories: 48.9 (+3.1 pts) and Customers' Inventories: 44.7** — both remain lean, but firms remain hesitant to rebuild.
- ▲ **Order Backlogs: 44.0 (-3.9 pts)** — pipelines remain thin heading into year-end.
- ▲ **November's PMI® corresponds** with roughly **+1.7% annualized real GDP**, consistent with continued overall economic expansion.

### Supply Chains Steady, Demand Slips, and Managers Remain Guarded

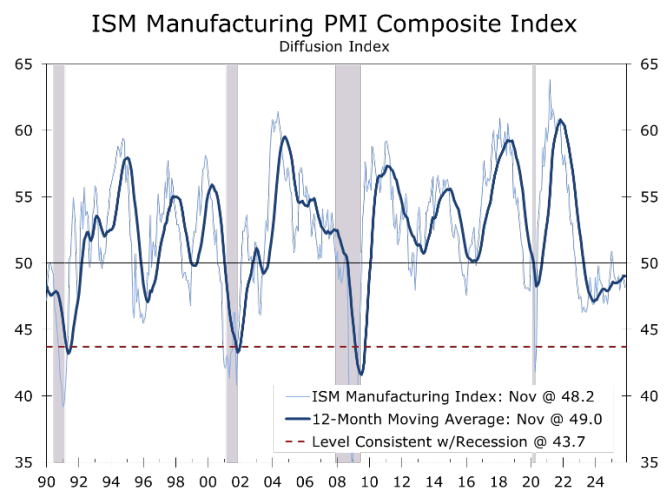
The ISM Manufacturing PMI® slipped to **48.2** in November, marking a ninth month of contraction and reinforcing the sector's struggle to regain traction. Readings below 50 reflect **breadth of deterioration**, not magnitude, and the latest figure remains consistent with a manufacturing sector **treading water** while the broader economy continues to expand.

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November's report once again displayed the now-familiar pattern: **demand softened, production improved, employment contracted, and supplier deliveries accelerated**, suggesting that capacity is more than adequate. Input costs remain elevated, with Prices Paid rising to **58.5%**, though the tariff-driven run-up appears to be **losing momentum**, and respondents signaled that cost pressures are **starting to ease around the edges**.

### *Production Rebounds, but Orders Slide as Uncertainty Keeps Managers Cautious.*

**New Orders** fell 2 points to **47.4**, contracting for a third straight month, while **Employment** dropped to **44.0**, its lowest level since August. **Production**, however, bounced back into expansion at **51.4**, reflecting improved parts availability and execution of previously delayed orders. Inventories rose modestly but remained in contraction, and **Customers' Inventories stayed at "too low" levels**, a historically supportive signal once confidence improves.



Source: The Institute for Supply Management (ISM)



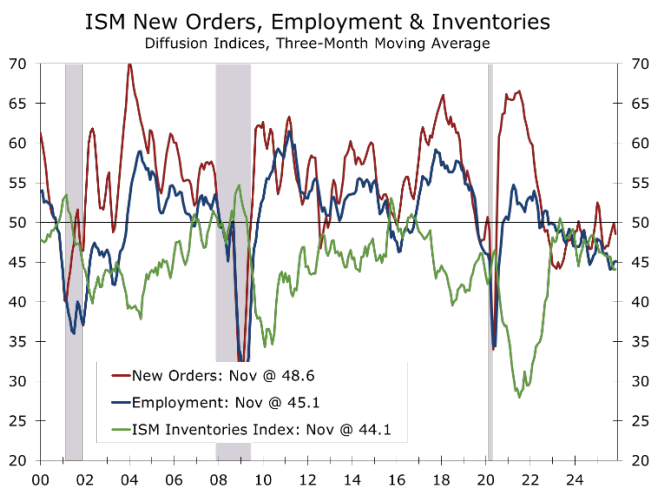
## Manufacturers Are Navigating a Two-Speed Cycle

- **Demand for goods is weakening**, with New Orders, Backlogs, and New Export Orders all in contraction.
- **Production is expanding**, helped by supply-chain stabilization and conversion of existing orders.
- **Employment is contracting faster**, as firms preserve liquidity and avoid adding capacity into an uncertain environment.

Panelists again cited **tariff volatility**, policy uncertainty, shifting international regulations, and inconsistent external demand as central challenges. Nearly **two-thirds** of manufacturers continue to **manage headcount lower**, relying on attrition, selective layoffs, and more disciplined labor deployment to boost productivity and protect margins.

### *Rising jobless expectations signal a softer market for lower-wage and entry-level workers.*

Firms continue to operate in a **defensive configuration** — emphasizing **cash-flow discipline, flexible staffing models, streamlined supplier portfolios, and reduced forward commitments**. With backlogs thinning further, the sector lacks the “cushion” needed for a near-term snapback in production should orders remain soft.



Source: The Institute for Supply Management (ISM)

The uncertainty that defined October became more visible in November. Respondents highlighted:

- **Tariff-driven cost volatility** in metals, electrical components, and engineered materials.
- **Longer import transit times**, even as aggregate supplier performance improved.
- **Sourcing shifts and planning challenges** tied to reciprocal trade actions and compliance changes.
- **Lingering shutdown effects** in agriculture, transportation equipment, and regulated industries.
- **Offshore production adjustments**, where firms sought ways to blunt tariff exposure.

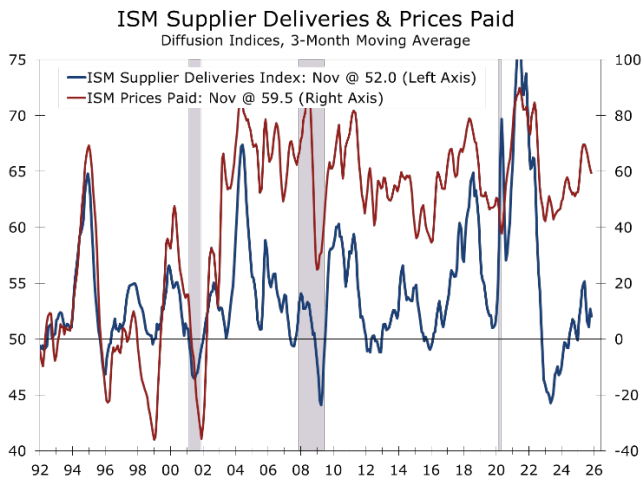
The unifying theme: **uncertainty, not collapsing demand**, remains the dominant headwind and continues to reinforce a “**wait-and-see**” posture for inventories, hiring, and capital allocation.

### *Consumers remain cautious—but they’re still spending, prioritizing value and essentials.*

The **Prices Paid** index increased to **58.5**, marking the 14th consecutive month of rising costs. Metals (aluminum, copper, hot-rolled steel), critical minerals, and advanced electronics components continue to exert upward pressure. Respondents noted:

- Tighter supplier bases in some materials
- Longer lead times for specialized components
- Elevated landed costs due to tariff structures
- Limited availability of rare-earth magnets and electronic components

While the rate of increase has slowed relative to earlier spikes, **cost stickiness** remains a challenge, encouraging firms to maintain **lean inventories and selective purchasing** — a quiet signal to supply-chain teams that **diversified sourcing and tighter contract windows** may carry outsized strategic value.



Source: Institute for Supply Management (ISM)

Customers' Inventories rose slightly to **44.7**, still firmly in "too low" territory, a condition that historically precedes production upturns once sentiment turns. Inventories increased modestly to **48.9** but remain constrained by caution rather than capacity.

These dynamics mirror the backdrop from October: lean inventories **could** support a restocking cycle, but **policy uncertainty — not supply chains issues — is keeping that demand on hold.**

Backlog weakness reinforces that narrative. The **Backlog of Orders Index fell to 44.0**, its softest reading since spring, signaling minimal near-term lift for production.

#### Sector Breadth and Structural Takeaways

Four industries expanded in November: **Computer & Electronic Products; Food, Beverage & Tobacco; Miscellaneous Manufacturing; and Machinery.**

Eleven contracted, including **Apparel, Wood Products, Paper, Nonmetallic Minerals, Fabricated Metals, Chemicals, Petroleum & Coal, Transportation Equipment, and Plastics & Rubber.**

The strongest sectors continue to reflect:

- **Semiconductor and electronics ecosystems**
- **Food and beverage**, supported by stable consumption

- **Machinery and automation**, driven by targeted investment in efficiency

Weaker sectors remain concentrated in:

- **Construction-related inputs**
- **Tariff-affected intermediates**
- **Durables and transportation equipment**, where planning visibility remains murky

The breadth of contraction is meaningful but **not accelerating**, aligning with a sector undergoing **incremental adjustment rather than acute decline.**

#### Inventories and Customers' Inventories Signal Room for Restocking — When Confidence Returns

The November ISM report points to a manufacturing economy navigating a **slow-moving adjustment**, not a recession. The challenge remains the same as in October: **low visibility, variable costs, and policy volatility** are suppressing risk-taking at a time when inventories and customer stock levels would ordinarily support a modest rebuild.

The combination of thin backlogs, lean customer inventories, still-elevated input costs, and heightened geopolitical and trade friction, suggests that stabilization is possible in early 2026 **if policy clarity improves.** Until then, manufacturers are likely to remain **defensive**, focusing on **flexibility over scale and liquidity over expansion.**

#### Implications for the Federal Reserve

The ISM Manufacturing report neither accelerates nor derails the Fed's path. While the factory sector is contracting at a slightly faster pace, the overall economy is still growing modestly, consistent with our Q4 real GDP forecast at 1.7%. This supports the view that **near-term rate cuts should be approached cautiously**, not urgently, and that **manufacturing will not be a source of renewed inflation pressure** without a significant shift in policy or trade conditions.

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