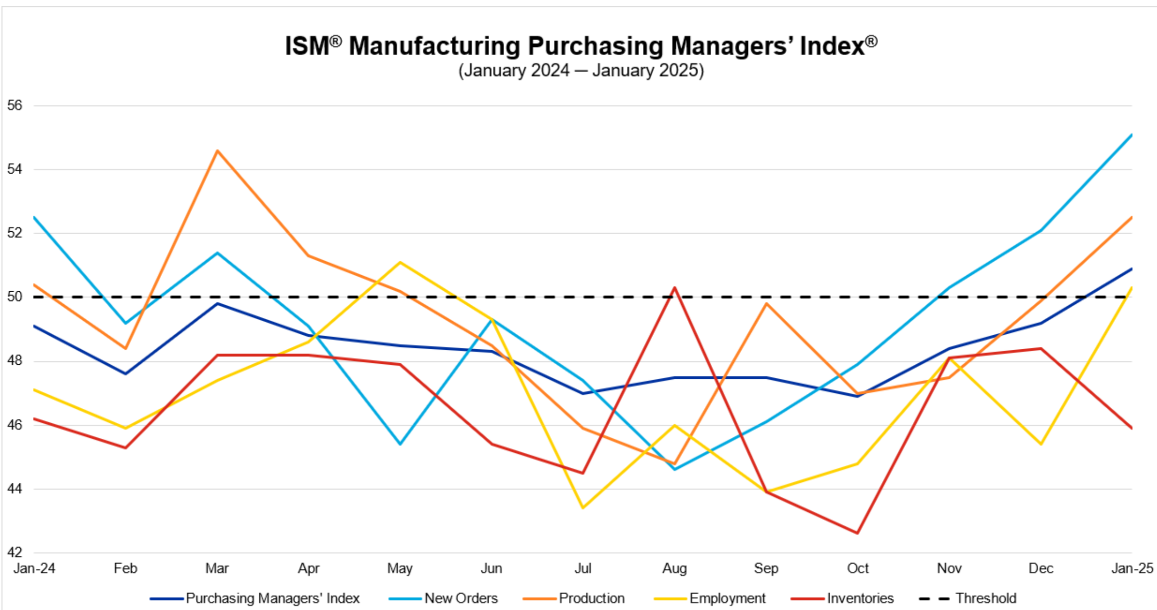
# MONDAY ECONOMIC REPORT

## Manufacturing Activity Turns a Corner in January

February 10, 2025 – SHARE

*By Victoria Bloom with contributions from Mary Frances Holland*

Manufacturing-Focused Weekly Toplines




- **After 26 months contracting, manufacturing activity expands:** After showing signs of improvement in the fourth quarter of 2024, the ISM Manufacturing® PMI rose above the 50 threshold that indicates growth, increasing to 50.9% in January. Customer demand showed clear improvement, and inputs remained accommodative as output expanded.
    - **Why it matters:** The ISM Index® for manufacturing activity has been essentially in contraction for the past two years as demand for goods slowed post-pandemic. Therefore, an improvement in customer demand is a welcome sign.

- **The global manufacturing sector also edged back into expansion territory:** The J.P. Morgan Global Manufacturing PMI rose to 50.1 in January, the first sign of improvement in operating conditions in seven months. Three of the five PMI components were at levels consistent with expansion.

  - **What it means:** As predicted, improvements in operating conditions in the U.S. and China shifted global manufacturing back to expansion territory, reflecting the dominance of the two largest manufacturing economies.

- **Meanwhile, other PMI measures also show increased strength:** The S&P Global U.S. Manufacturing PMI rose to 51.2 in January from 49.4 in December, above the 50 threshold that indicates expansion in the sector. Meanwhile, the expansion was paired with a surge in optimism, with the year-ahead outlook for production hitting a 34-month high.

  - **Why it matters:** While growth in new orders was a prominent factor in the renewed strength in manufacturing conditions in January, respondents linked the expansion in production schedules to the start of the new administration.

- **Manufacturers start hiring again in January:** Manufacturing employment increased by 3,000, following the December loss of 12,000 jobs. Meanwhile, nonfarm payroll employment increased by 143,000 in January, following the gain of 307,000 jobs in December.

  - **What it means:** While manufacturing activity turned a corner in January, so did employment. Although there were employment gains across most manufacturing sectors, a few notable losses occurred, such as for transportation equipment, which shed 12,400 jobs over the month.

- **But manufacturing job openings are still in decline:** Job openings for manufacturing dropped by 11,000 to 428,000 in December. Nondurable goods job openings decreased by 17,000, while durable goods job openings increased by 6,000.

  - **Why it matters:** The decline in manufacturing job openings over the past several months provides further evidence that the labor market is becoming less tight. A boost in manufacturing activity in January could stem the job opening decline, though.

- **Factory orders continue in the red in December:** New orders for manufactured goods fell 0.9% in December, after declining for four of the past five months. When excluding transportation, new orders edged up 0.3%. Orders for durable goods dropped 2.2%, following a 2.0% decrease in November.

- What it means: A staggering 45.7% drop in nondefense aircraft and parts orders suppressed what would otherwise be growth in factory orders. The headline new orders rate could stay in the red until transportation equipment orders show some improvement.

## This Week's Economic Indicators

**Monday, Feb. 10**
*None*

**Tuesday, Feb. 11**
*NFIB Small Business Survey*

**Wednesday, Feb. 12**
*Consumer Price Index*
*Real Earnings*

**Thursday, Feb. 13**
*Producer Price Index*

**Friday, Feb. 14**
*Retail Sales*
*U.S. Import and Export Price Indexes*
*Industrial Production and Capacity Utilization*
*Manufacturing Inventories and Sales*

## Deeper Dive

- **ISM Manufacturing® Index:** In January, the U.S. manufacturing sector expanded for the first time after 26 consecutive months of contraction, with the ISM Manufacturing® PMI rising to 50.9% from 49.2% the prior month. Customer demand showed clear improvement, and inputs remained accommodative as output expanded. The New Orders Index moved further into expansion territory, strengthening to 55.1%. Production and employment returned to expansion, registering 52.5% and 50.3%, respectively. Meanwhile, inventories (45.9%) and backlog of orders (44.9%) contracted at a faster pace in January.

  *Get more context on each index.*

- **J.P. Morgan Global Manufacturing PMI:** In January, the global manufacturing sector edged back into expansion territory to 50.1, the first sign of improvement in operating conditions in seven months. Three of the five PMI components were at levels consistent with expansion, as output and new orders registered meager growth after contracting the month prior, and supplier delivery times shortened. On the other hand, employment and stocks of purchases continued to decline. The main reason for improved production volumes in January was the upturn in new orders.

  *Where is manufacturing weakening across the globe?*

- **S&P Global U.S. Manufacturing PMI:** In January, U.S. manufacturing returned to growth for the first time in seven months. The S&P Global U.S. Manufacturing PMI rose to 51.2 in January from 49.4 in December, above the 50 threshold that indicates expansion in the sector. Meanwhile, the expansion was paired with a surge in optimism, with the year-ahead outlook for production hitting a 34-month high.

*Is manufacturing strengthening on all fronts?*

- **Employment Report:** Nonfarm payroll employment increased by 143,000 in January, slightly below the expectation of 170,000. Although the January gain was weaker than expected, December and November's job gains were revised upward substantially by a combined 100,000 jobs to 307,000 and 261,000, respectively. The 12-month average stands at 168,000 job gains per month. The unemployment rate ticked down 0.1% to 4.0%, while the labor force participation rate edged up 0.1% to 62.6%.

  Manufacturing employment inched up by 3,000, following the December loss of 12,000 jobs. The most significant losses in manufacturing in January occurred in transportation equipment, which shed 12,400 jobs over the month. Meanwhile, the most significant gains occurred in fabricated metal products, which added 3,800 jobs over the month.

  *Did other employment measures improve?*

- **Job Openings and Labor Turnover Survey:** Job openings for manufacturing dropped by 11,000 from a revised 439,000 in November to 428,000 in December. Nondurable goods job openings decreased by 17,000, while durable goods job openings increased by 6,000. The manufacturing job openings rate fell 0.1% to 3.2% in December and declined from 4.3% the previous year. The rate for durable goods manufacturing stayed the same at 3.5%, while it dropped by 0.3% to 2.7% for nondurable goods.

  In the larger economy, the number of job openings fell to 7.6 million, a decrease of 556,000 from the previous month and 1.3 million from the previous year. The job openings rate decreased to 4.5%, down from 4.9% in November and from 5.3% last year. While this data reflects an overall labor market that has cooled significantly, steady hiring and low layoffs suggest the labor market remains solid.

  *See more.*

- **Factory Orders:** New orders for manufactured goods fell 0.9% in December, after declining for four of the past five months. When excluding transportation, new orders edged up 0.3%. Orders for durable goods dropped 2.2%, following a 2.0% decrease in November. Year to date, durable goods orders are down 1.5%. Nondurable goods ticked up 0.3% in December after increasing 0.4% in November.

Nondurable goods orders are up 1.5% year to date.

*How are specific sectors faring?*

- **International Trade:** In December, U.S. exports totaled $266.5 billion—a $7.1 billion decrease from November—while imports were $364.9 billion, up $12.4 billion. This resulted in a goods and services deficit of $98.4 billion, surging 24.7% from November against the backdrop of tariff threats. The rise was driven primarily by an $18.9 billion increase in the goods deficit to $123.0 billion. In 2024, the deficit grew by $133.5 billion (17.0%) compared to 2023, with exports rising 3.9% and imports increasing 6.6%.

  Goods exports decreased $7.5 billion in December, with the most significant declines being in consumer goods and industrial supplies and materials. Goods imports grew $11.4 billion in December, led by increases in industrial supplies and materials. Services exports and imports rose slightly, with increases in travel, transport and financial services.

- **Wholesale Trade:** In December, merchant wholesalers' sales, excluding manufacturers' sales branches and offices, rose 1.0% from November and were up 2.8% from December 2023. The October to November sales growth was revised up from an initial estimate of 0.6% to 0.9%. Durable goods sales in December inched up 0.1% and were up 6.7% from December 2023. Meanwhile, nondurable goods sales rose 1.9% in December but dropped 0.6% year-over-year.

  Total inventories for these wholesalers at the end of December declined 0.5%. Durable goods inventories decreased 0.6% in December and inched down 0.1% year-over-year. Meanwhile, nondurable goods inventories fell 0.2% from November but stayed the same year-over-year. The overall inventories-to-sales ratio was 1.31 in December, below the ratio of 1.35 in December 2023. Durable goods had a 1.69 inventories-to-sales ratio, while the ratio for nondurable goods was 0.95.

- **University of Michigan Consumer Sentiment Index (Preliminary):** Consumer sentiment fell for the second consecutive month, dropping 4.6% from 71.1 to 67.8, the lowest reading since July 2024. Declines in sentiment were observed across political, age and wealth groups. Additionally, all five index components declined, led by a 12% decrease in buying conditions for durable goods due to perceptions that it is too late to avoid the negative impacts of tariffs. Personal finance expectations plunged 6% to its lowest point since October 2023, as respondents fear a return of high inflation rates. Year-ahead inflation expectations rose from 3.3% to 4.3% this month, the highest reading since November 2023 and above the average range seen in the two years pre-pandemic. Long-run inflation expectations ticked up to 3.3%, also above the pre-pandemic range of 2.2%–2.6%.

- **Consumer Credit:** Consumer credit rose 9.6% in December and 4.2% (seasonally adjusted annual rate) in Q4. Across 2024, consumer credit increased 2.4%. Revolving credit, which includes credit cards, jumped 20.2% in December, after dropping -12.1% in November, but rose 7.1% across Q4 and 4.8% over 2024. Nonrevolving credit, such as car and student loans, increased 5.8% in December and 3.1% in Q4. In 2024, nonrevolving credit rose 1.6%. The surge in revolving credit was likely influenced by not only a ramp-up in spending as consumers were in the peak of the holiday shopping season but also consumers rushing to buy goods in advance of tariffs. Interest rates for credit products continue to soften but remain near all-time highs.

- **Construction Spending:** Total construction spending rose 0.5% in December and was 4.3% higher than December 2023. Spending in 2024 was up 6.5% from 2023. Residential construction increased 1.5%, while nonresidential construction edged down 0.2% from November. Private construction spending increased 0.9% in December and was 5.6% higher than in 2023. Private manufacturing construction spending stayed the same over the month and was up 11.1% from December 2023.

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