ISM Surveys Indicate Manufacturing Slowed Further While Services Shot Higher in December

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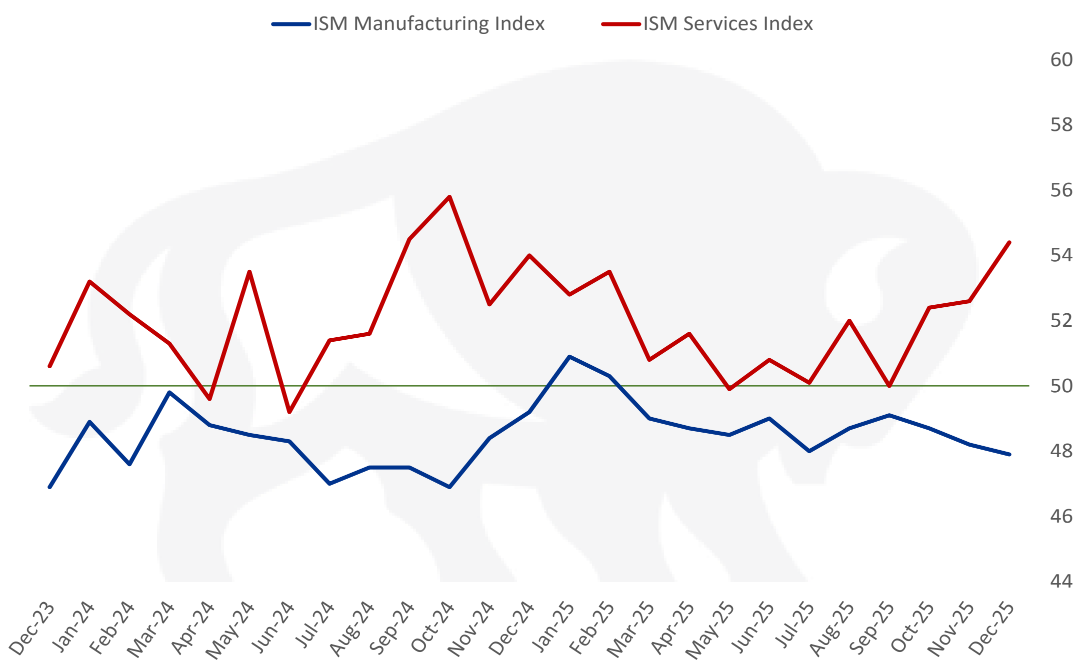
The Institute for Supply Management (ISM), one of the oldest organizations in supply chain management, releases its Manufacturing and Services Reports every month on Business, offering a timely look at U.S. economic conditions. These indices are diffusion measures, meaning readings above 50 signal expansion while values below 50 indicate contraction. Together, they provide a forward-looking view into business activity, demand, employment, and pricing trends across the economy.

On Monday, the Manufacturing Index slipped to 47.9 in December, marking its lowest reading of the year and the tenth consecutive month of contraction. The sector has now been in contraction for more than three years, reflecting a prolonged period of weak activity. Business leaders continue to report broadly about tariffs, elevated input costs, and softer demand. Many industries note declining orders, reduced capacity utilization, and tightening margins as firms struggle to pass higher costs through to customers.

For manufacturing, the five major components that form the headline index are New Orders, Production, Employment, Supplier Deliveries, and Inventories. Only Production (51.0) and Supplier Deliveries (50.8) remain in expansion territory. Employment continues to be a notable drag at 44.9, while Inventories fell to 45.2, signaling ongoing pullbacks in inventory. And while manufacturing accounts for only about 10% of U.S. economic activity, it remains a critical employer for blue collar workers, many of whom continue to face job losses across key goods producing industries.

ISM Purchasing Managers Index



Source: Institute for Supply Management

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Turning to the more impactful ISM Services Index, released this morning, the headline reading jumped to 54.4, up from 52.4 in November, an eye-catching result given that forecasts called for a decline to 52.2, especially after several Regional Fed surveys pointed to weakening demand last month. For context, the ISM Services Index averaged 52.8 in 2023 and 52.5 in 2024. December marked the tenth straight month of expansion and the highest reading of 2025.

Comments in the report generally are related to mixed but cooling conditions shaped by higher costs, policy uncertainty, and uneven demand. Many industries cite rising prices tied to tariffs, regulatory and labor pressures, and increased volatility in supplier markets, while others note stable activity with pockets of strength and shifting consumer preferences.

All four major components of the Services Index were above 50 in December. The Employment Index rose sharply to 52.0 from 48.9, ending a seven month streak of contraction. However, the details show that fewer than half of the 18 industries, only seven, reported an actual increase in employment for the month. New Orders surged a questionable 5.0 points to 57.9, while Business Activity remained strong, and Supplier Deliveries eased slightly to 51.8. Overall, 11 of the 18 services industries reported growth in December.

A closely watched subcomponent, the prices paid index, came in softer than expected at 64.3 compared to 64.9 and was 65.4 in November. These levels are still relatively high but are a welcomed development for policymakers as the Fed positions for rate cuts later this year. Along with the flat prices paid reading in the manufacturing survey at 58.5, December's results offer an encouraging signal for the future path of inflation.

Today's data reinforces an economic theme in which services continue to outperform while manufacturing remains sluggish. Meanwhile, the latest JOLTS report for November shows further cooling in labor demand, with total job openings declining to 7.15 million and the ratio of job openings to unemployed workers slipping to 0.91, down from just above 1 the month prior, another sign that labor market tightness continues to ease.

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Market Indications as of 11:09 A.M. Central Time

DOW	Down -69 to 49,393 (HIGH: 49,462)
NASDAQ	Up 169 to 23,717 (HIGH: 23,958)
S&P 500	Up 14 to 6,959 (NEW HIGH)
1-Yr T-bill	current yield 3.48%; opening yield 3.46%
2-Yr T-note	current yield 3.46%; opening yield 3.47%
3-Yr T-note	current yield 3.52%; opening yield 3.53%
5-Yr T-note	current yield 3.69%; opening yield 3.71%
10-Yr T-note	current yield 4.14%; opening yield 4.17%
30-Yr T-bond	current yield 4.81%; opening yield 4.86%