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US Economics | North America

Business Conditions: Trade Policy Uncertainty Not Affecting Future Hiring Decisions

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The MSBCI remained in expansion in November. Manufacturing activity showed more weakness, while services activity showed more strength. Respondents noted that trade policy uncertainty is not affecting hiring decisions.

Exhibit 1: Morgan Stanley Business Conditions Index (MSBCI)

	Nov 23	Dec 23	Jan 24	Feb 24	Mar 24	Apr 24	May 24	Jun 24	Jul 24	Aug 24	Sep 24	Oct 24	Nov 24
Morgan Stanley Business Conditions Index (seasonally adjusted)	**45**	**49**	**53**	**45**	**52**	**42**	**30**	**40**	**53**	**44**	**42**	**53**	**51**
MSBCI (3-month moving average)	52	47	49	49	50	46	41	37	41	46	46	46	49
Morgan Stanley Business Conditions Index	50	44	55	50	56	40	31	44	54	38	45	46	50
Manufacturing Subindex	50	50	40	50	50	30	33	50	70	50	25	38	33
Services Subindex	50	43	67	50	58	45	29	38	44	31	55	50	58
Prices Received Index	72	81	82	85	86	93	85	78	71	79	86	67	72
Prices Paid Index	50	43	55	67	73	75	70	81	62	65	82	70	57
Composite MSBCI	**50**	**55**	**49**	**46**	**54**	**52**	**49**	**50**	**57**	**55**	**54**	**43**	**53**
Advance Bookings Index	50	100	60	25	64	50	50	63	88	75	75	17	67
Credit Conditions Index	45	44	55	73	64	63	69	61	57	63	64	63	67
Business Conditions Expectations Index	50	50	55	65	69	70	54	61	64	67	61	58	67
Hiring Index	45	44	36	23	31	33	35	28	32	29	36	33	28
Hiring Plans Index	45	44	36	35	36	37	27	28	43	33	39	33	28
Capex Plans Index	65	50	55	54	58	57	62	61	58	64	50	55	61
Memo: % reporting increase over previous 3 months													
Hiring	10	0	0	0	17	7	8	0	0	0	7	0	0
Hiring Plans	10	0	0	0	17	7	0	0	0	0	0	0	0
Capex Plans	30	13	18	15	17	13	31	22	15	27	8	20	33

Note: Headline index seasonally adjusted, all else not seasonally adjusted.
Source: Morgan Stanley Research

Note: Zero values are an indication that companies on balance see the same level of activity as the prior month/s. Source: Morgan Stanley Research

What are company management teams saying? The MSBCI survey is a monthly canvas of our MS equity analysts gathering the current and expected conditions reported by companies under their coverage - a large sample of publicly traded companies. The resulting MSBCI headline index is a sentiment indicator that reflects our analysts' responses to the following question: compared to a month ago, business conditions in my industry have: improved/worsened/not changed. We find that a reading in the MSBCI headline above 33.0 is consistent with positive real GDP growth, and for the MSBCI Composite index a reading above 46.0 is consistent with positive real GDP growth. We also introduce topical special questions each month.

The November MSBCI survey (conducted from November 12-14) showed business conditions still in expansion. The index ticked down to a reading of 51 - but remains above 50 (seasonally adjusted, +50 = expansion) (Exhibit 1). The Manufacturing Subindex showed more weakness falling to 33, while the Services Subindex showed more strength rising to 58. All in all, **the MSBCI Composite index rose to 53. The Business Conditions Expectations Index, which measures 6-month forward expectations for activity, rose to 67 in November vs 58 in October. It remains above its average reading of 48 in 2023.**

This Month's Special Question

In each survey we include special questions to gauge how recent developments are affecting current and expected future conditions among companies under our equity analysts' coverage. In November, we introduced a new question on trade policy uncertainty and future hiring decisions.

Q: How do you see trade policy uncertainty affecting future hiring decisions?

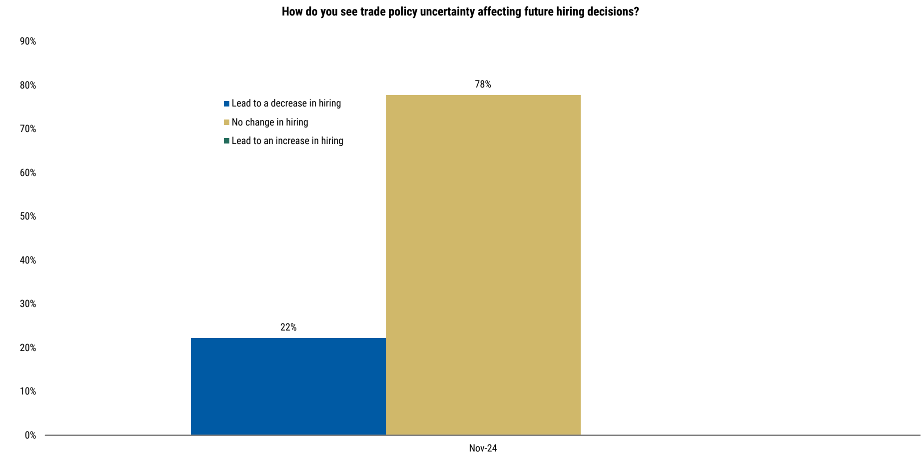
- Lead to a decrease in hiring
- No change
- Lead to an increase in hiring

The majority of respondents do not see trade policy uncertainty affecting their future hiring plans. However, there was a small share of respondents noting that trade policy uncertainty would lead to a decrease in hiring (Exhibit 2).

Respondents that said "No change in hiring": Gaming & lodging, telecommunication services, midstream energy infrastructure, business services, hardline retail, chemicals and leisure & services products.

Respondents that said "Lead to a decrease in hiring": Machinery, oil & gas services.

Exhibit 2: Majority of respondents do not see trade policy uncertainty affecting their future hiring decisions



Source: Morgan Stanley Research

November Survey Details

Respondents were asked to rank policy concerns from "most concerned" to "least concerned" for their respective sectors/industries.

Majority of respondents were split down the middle between trade policy and tax changes as the top concerns among their coverage companies (Exhibit 3)

For additional commentary on tariffs and taxes, see:
2024 US Election: Tariffs: Global Economic and Strategy Implications (26 Sep 2024)

Podcast | Thoughts on the Market: The U.S. Election and Tax Policy (30 Oct 2024)

US Public Policy: Tax Policy FAQ: Presidential Tax Plans Coming into Clearer View (21 Oct 2024)

Exhibit 3: Top policy concerns among industry respondents

Top Policy Concerns*: November 2024			
Tariffs/Trade	Immigration/Labor Costs	Infrastructure/Supply Chains/Green Incentives	Tax Changes
			Telecom Services
		Midstream Energy Infrastructure	Gaming & Lodging
Chemicals		Machinery	Oil & Gas Services
Hardline Retail			
Leisure Products & Services			

*Industries/sectors are grouped based on the top concern of the respondents

Source: Morgan Stanley Research

Related notes:
2025 US Economics Outlook: Slower Growth, Stickier Inflation (17 Nov 2024)

2025 Global Economics Outlook: Pieces of the Policy Puzzle (17 Nov 2024)

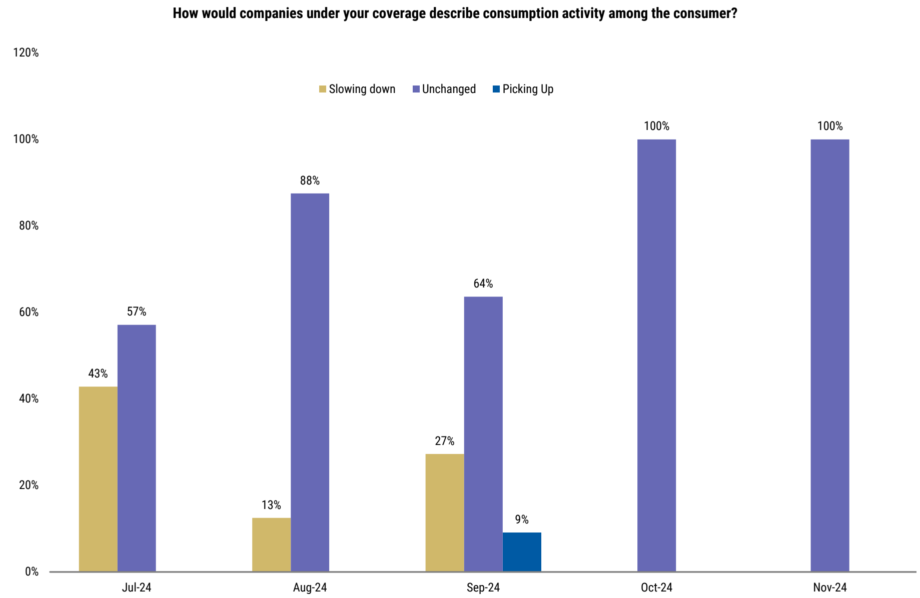
2025 Global Strategy Outlook: Timing Is Everything (17 Nov 2024)

Of the respondents who cater to the US consumer, all note their coverage companies see consumption activity remaining steady (Exhibit 4)

Industries that see consumption activity remaining unchanged/steady:
Telecommunication Services, Lodging & Gaming, Hardline Retail and Leisure Products &

Services.

Exhibit 4: Of the respondents who cater to the US consumer, all note their coverage companies see consumption activity remaining unchanged/steady



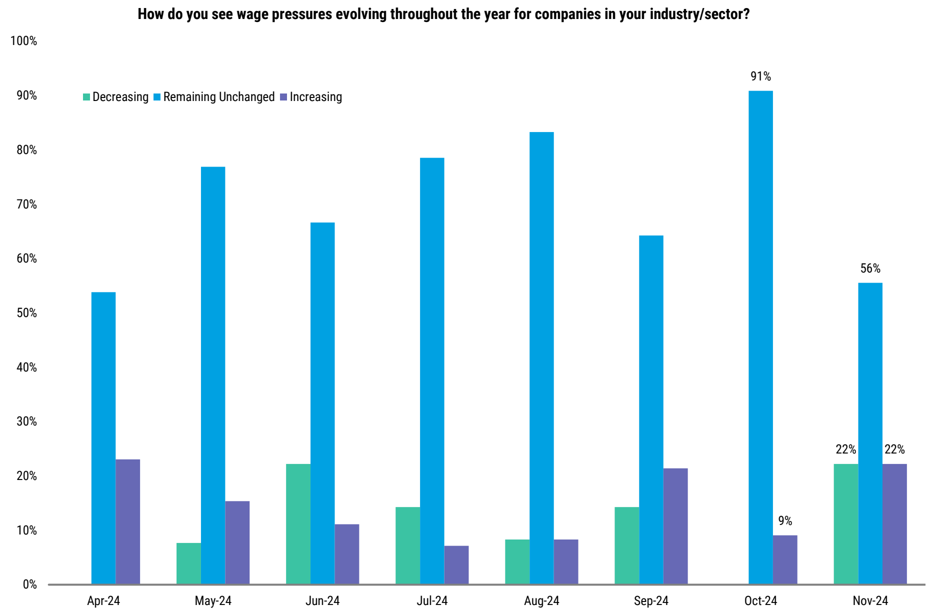
Source: Morgan Stanley Research

Most respondents still see wage pressures remaining stable - though the share is lower than last month (Exhibit 5). They include gaming & lodging, telecommunication services, midstream energy infrastructure, oil & gas services, chemicals and leisure products & services.

Industries that see wage pressures rising this year: Oil & Gas services and Hardline Retail.

Industries that see wage pressures decreasing this year: Machinery & Business Services.

Exhibit 5: Majority of respondents still see wage pressures remaining stable in their industry - though the share was lower than last month



Source: Morgan Stanley Research

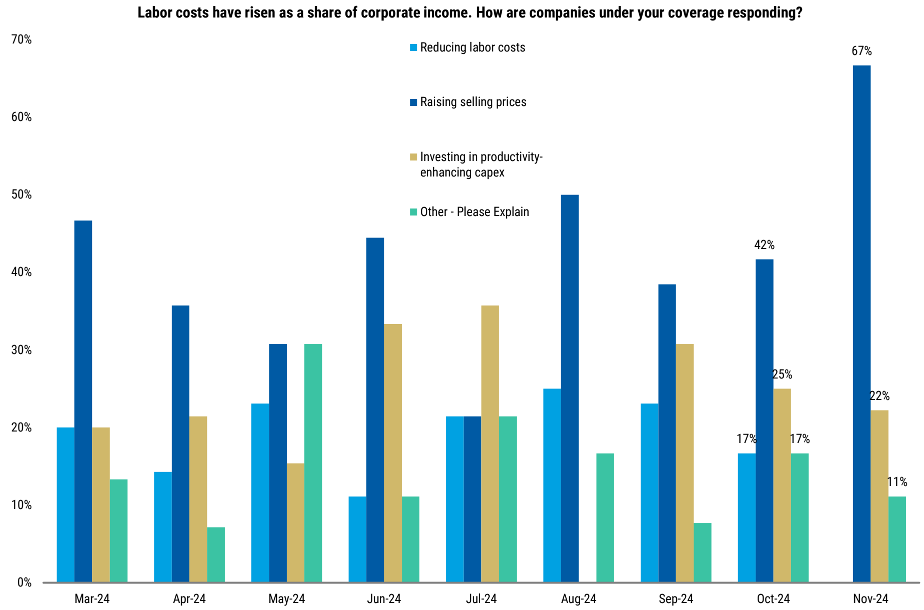
Increasing selling prices remains the primary approach that firms are using to help offset elevated labor costs. However, select industries are looking to capex as an alternative (Exhibit 6).

Of the respondents that noted "Raising selling prices": Gaming & Lodging, Telecommunication Services, Midstream Energy Infrastructure, Machinery, Business Services, Hardline Retail.

Of the respondents that noted "Investing in Productivity-Enhancing Capex": Oil & Gas Services and Leisure Products & Services.

Of the respondents that noted "Other": Chemicals (cutting costs).

Exhibit 6: Raising selling prices remains the key way firms are dealing with higher labor costs; investing in capex remains a second alternative



Source: Morgan Stanley Research

A lot of respondents noted that their coverage companies need rates to come down further before they act on addressing their financing and debt restructuring costs (Exhibit 7).

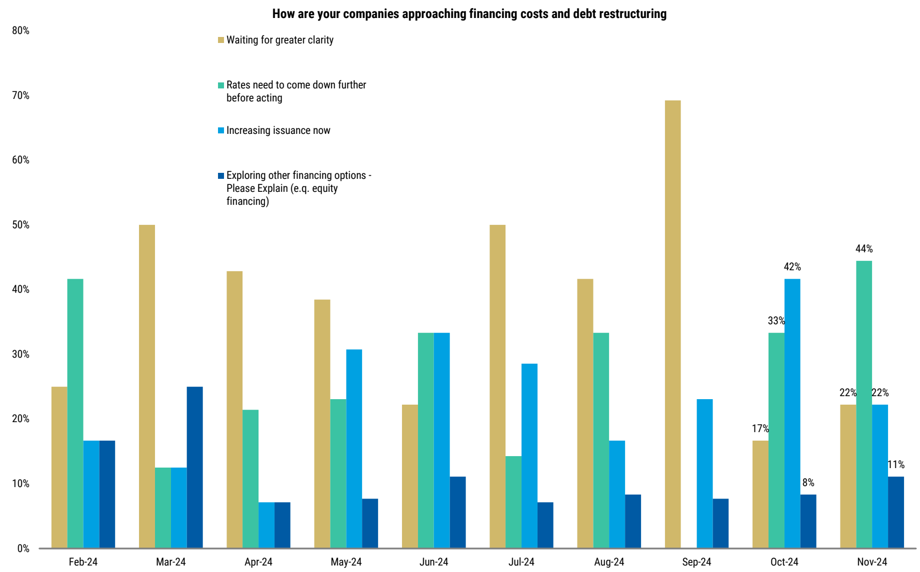
Respondents waiting for rates to come down further: Machinery, Business Services, Chemicals and Leisure Products & Services.

Respondents who are increasing issuance now: Gaming & Lodging and Midstream Energy Infrastructure.

Respondents waiting for greater clarity: Oil & Gas Services and Hardline Retail.

Respondents exploring other financing options: Telecommunication Services.

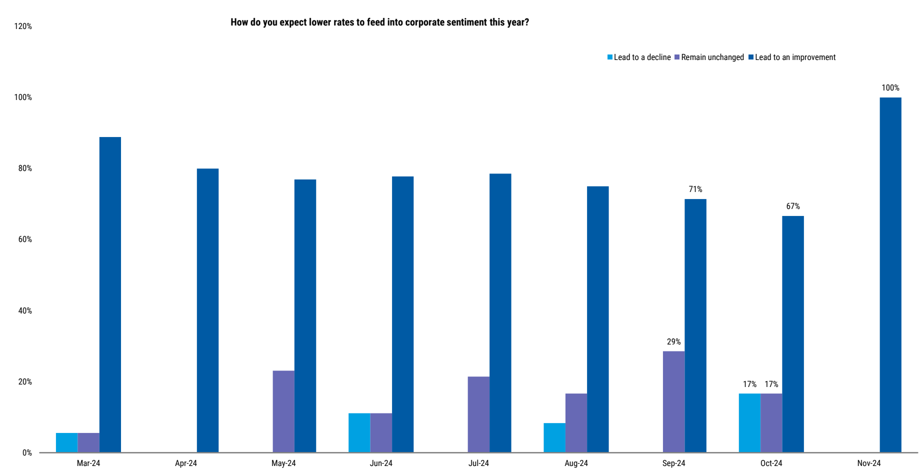
Exhibit 7: A lot of respondents note their coverage companies need rates to come down further before acting on their financing and debt restructuring costs



Source: Morgan Stanley Research

All respondents expect lower rates to lead to an improvement in corporate sentiment, steady at a high level over the past several months (Exhibit 8). They include telecommunication services, machinery, business services, chemicals, gaming & lodging, hardline retail, leisure products & services and midstream energy infrastructure.

Exhibit 8: All respondents still expect lower rates to lead to an improvement in corporate sentiment



Source: Morgan Stanley Research

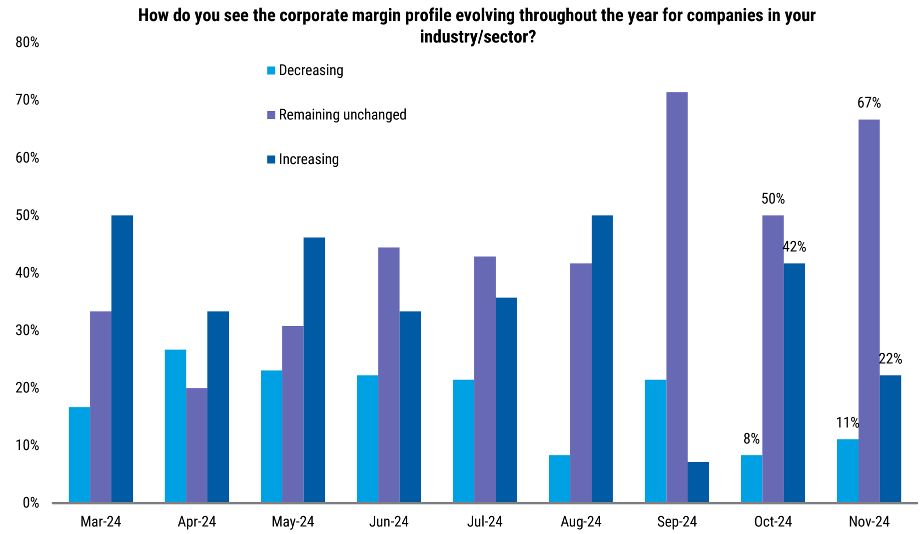
Majority of respondents still note that their coverage companies see corporate margins remaining steady for the remainder of the year (Exhibit 9).

Of the respondents that noted "Remaining Unchanged": Telecommunication Services, Midstream Energy Infrastructure, Business Services, Hardline Retail and Chemicals.

Of the respondents that noted "Increasing": Oil & Gas Services and Leisure Products & Services.

Of the respondents that noted "Decreasing": Machinery and Gaming & Lodging.

Exhibit 9: Most respondents still see corporate margins remaining stable

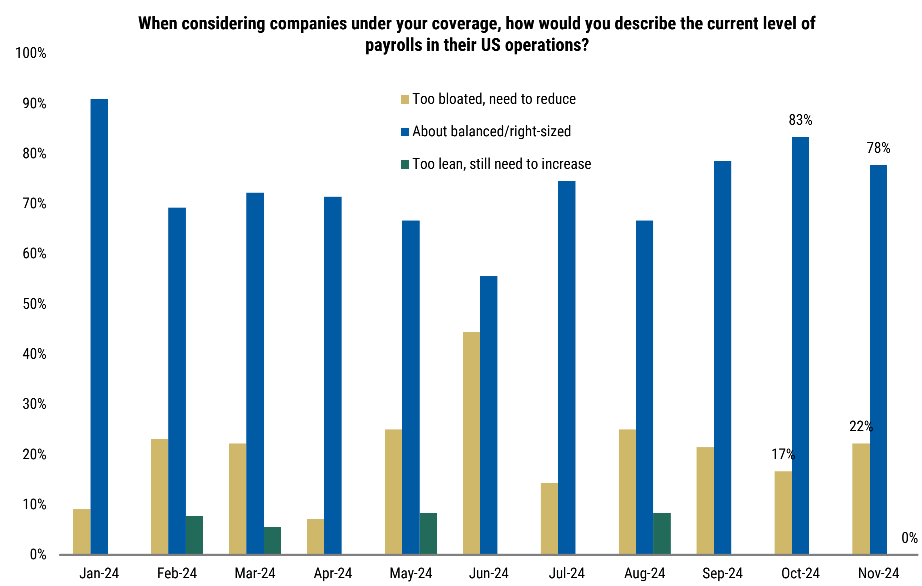


Source: Morgan Stanley Research

Majority of respondents described their current level of payrolls in their US operations as "about balanced" (Exhibit 10). They include Gaming & lodging, oil & gas services, machinery, business services, hardline retail, chemicals and leisure products & services.

November also saw a slightly larger share of respondents note that firms under their coverage think headcounts are bloated. They include telecommunication services and midstream energy infrastructure.

Exhibit 10: Majority note that firms still describe their current level of payrolls as "About balanced"; More respondents reported payrolls as "Too bloated"



Source: Morgan Stanley Research

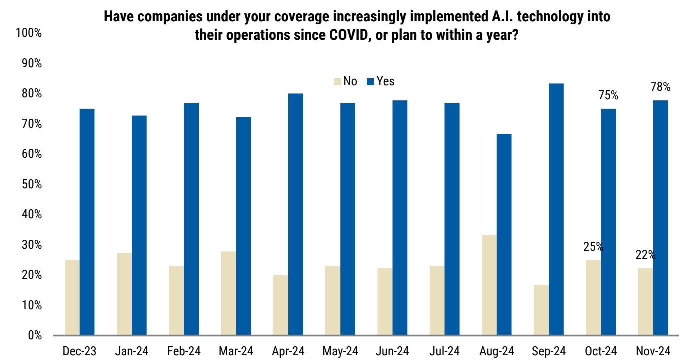
A sizeable majority of respondents have noted that companies under their coverage continue to implement A.I. technology into their operations since COVID, or plan to

within a year (Exhibit 11). Industries that have increased (or plan to increase) their A.I. adoption include machinery, telecommunication services, midstream energy infrastructure, oil & gas services, business services, hardline retail, leisure products & services.

Further, a net majority of respondents have noted corporate spending plans on A.I. among their coverage companies "increased" this month. The industries that have noted corporate spending on A.I. "increased somewhat" include oil & gas services, machinery, hardline retail, telecommunication services, and chemicals. Business services noted that A.I. spending "increased significantly" (Exhibit 12).

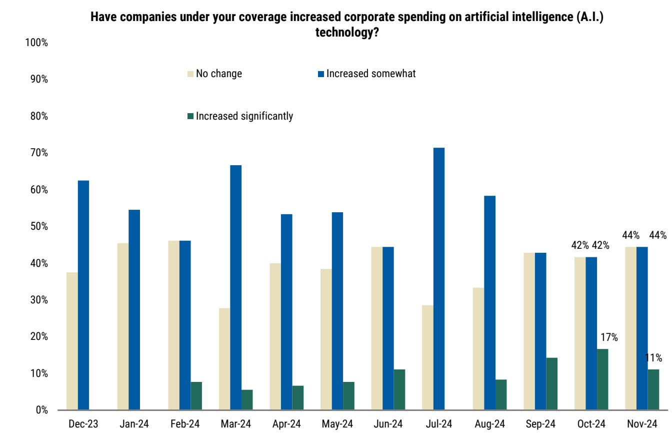
As companies are increasingly incorporating A.I. in their production processes, we may see a new upswing in productivity and notable impact on the economy.

Exhibit 11: Companies continue to increase their A.I. adoption



Source: Morgan Stanley Research

Exhibit 12: Corporate spending on A.I. continued this month



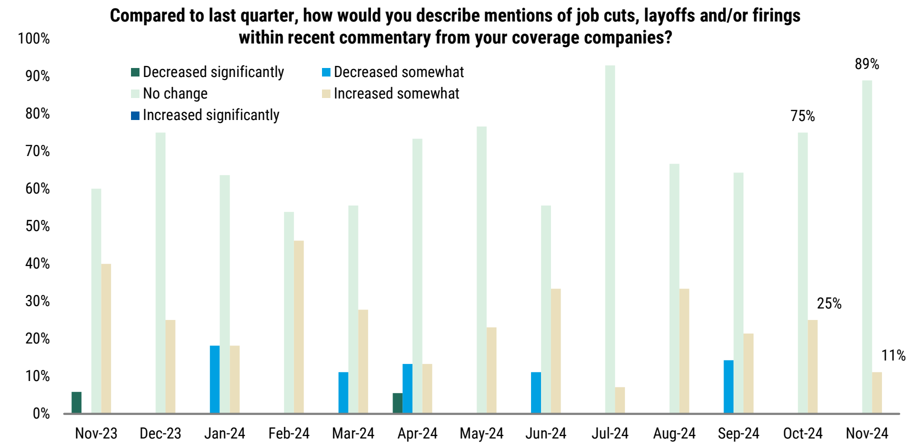
Source: Morgan Stanley Research

Majority of respondents noted "no change" in corporate commentary around firings, layoffs, and/or job cuts compared to last quarter (Exhibit 13). These industries include telecommunication services, oil & gas, business services, hardline retail, chemicals, gaming & lodging, midstream energy infrastructure and leisure products & services.

Machinery saw an increase in layoffs vs the prior quarter.

In this month's survey, "no change" in the pace of layoffs was reported in 89% of industries, up from last month. There was also a decrease in the number of industries that increased layoffs (11% vs 25% in the prior month).

Exhibit 13: Majority note that commentary on firings, layoffs and/or job cuts remained unchanged this month



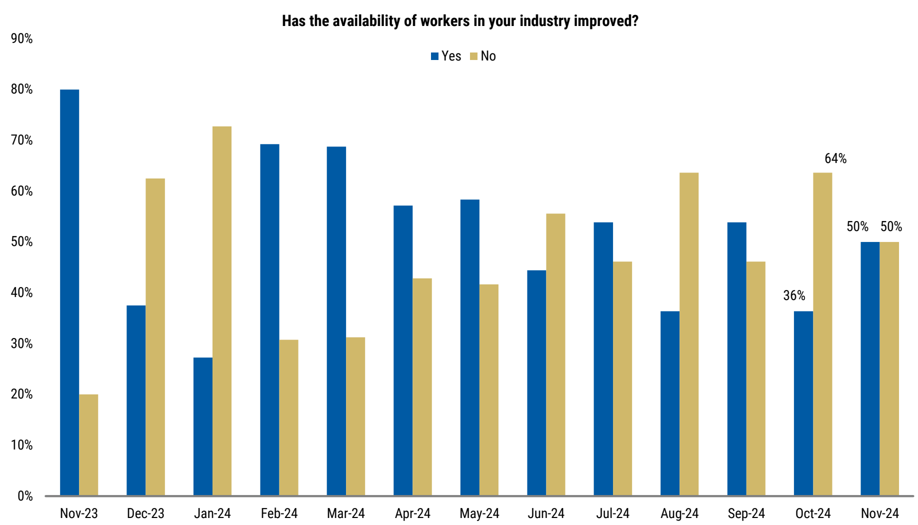
Source: Morgan Stanley Research

Respondents were split down the middle on worker availability (Exhibit 14):

Industries that saw an improvement in workers availability: Lodging & Gaming, Telecommunication Services, Hardline Retail and Leisure Productions & Services.

Industries that did not see an improvement in worker availability: Machinery, Midstream Energy Infrastructure, Oil & Gas Services and Chemicals.

Exhibit 14: Respondents were split down the middle on worker availability

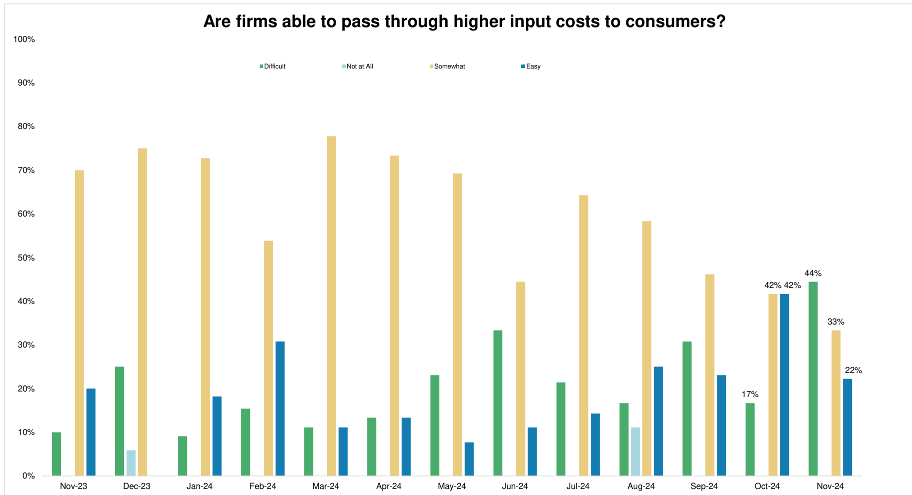


Most respondents indicate that the pass-through of costs from their coverage companies to their consumers still ranges from "easy-to-somewhat" (Exhibit 15). Business services, and midstream energy infrastructure noted passing on higher costs was "easy". Oil & gas, hardline retail and leisure products & services all note firms were "somewhat" able to pass on higher costs.

While most respondents still see firms being able to pass on costs, there was an increase in the share of respondents whose coverage companies found difficulty in passing on higher costs to their customers. Telecommunication services, lodging &

gaming, machinery and chemicals all noted difficulties in passing on costs.

Exhibit 15: Pass through costs to consumers range from "easy-to-somewhat" among firms. However, a larger share of respondents noted difficulties in their respective industries

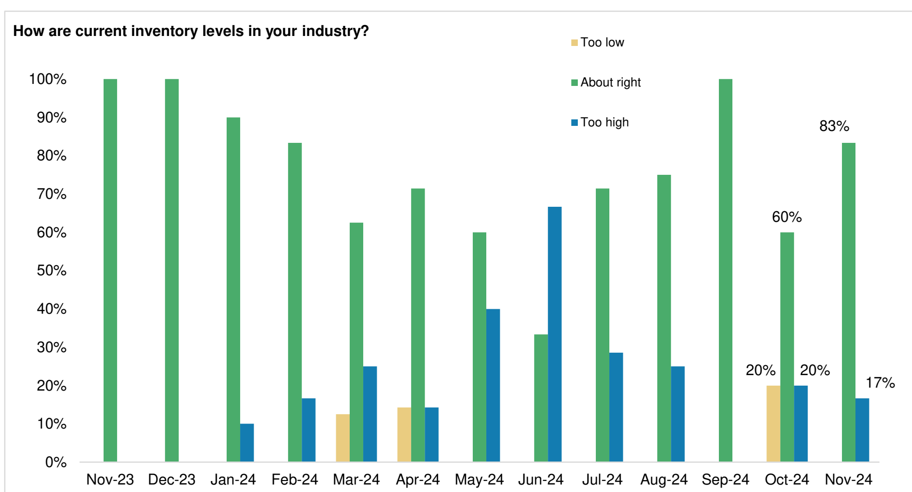


Source: Morgan Stanley Research

On inventory levels, of the respondents whose coverage companies maintain inventory as part of their business operations, majority see inventory levels as "about right" (Exhibit 16). They include leisure products & services, chemicals, business services, hardline retail and oil & gas services.

Machinery sees inventory as "too high".

Exhibit 16: Most respondents note that their coverage companies see their inventory levels as being "about right"



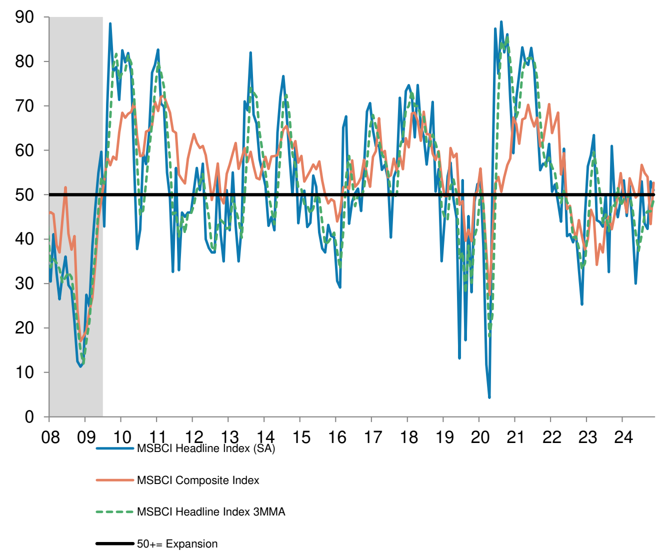
Source: Morgan Stanley Research

Summary Metrics

The MSBCI Composite Index (non-seasonally adjusted), a gauge that fully synthesizes our analysts' views of their coverage companies, rose to a reading of 53 (+50 = Expanding) from 43 in October (Exhibit 17) [1] The Composite Index saw increase in advance bookings, credit conditions, business conditions and capex plans. In contrast, the hiring indicators saw further weakness. The Prices Received Index rose while the Prices Paid index fell on the month. The positive spread between Received and Paid shows margin expansion among companies (Exhibit 18 & Exhibit 19).

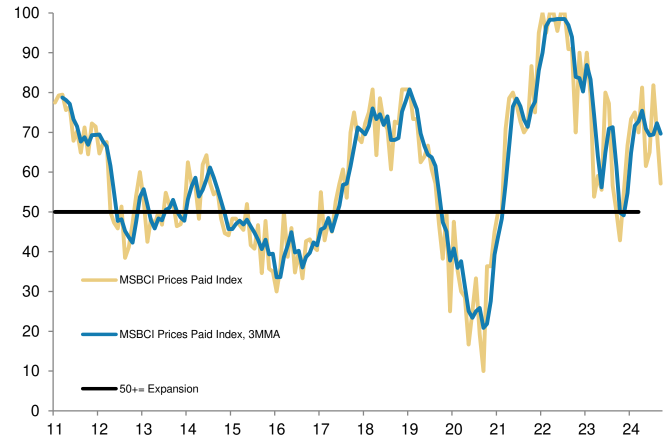
Exhibit 20 details the component contributions to the MSBCI Composite Index. Advance Bookings plans was the largest positive contributor in November, while the hiring and hiring plans indexes were negative contributors.

Exhibit 17: MSBCI and the MSBCI Composite: Recent Performance



Source: Morgan Stanley Research

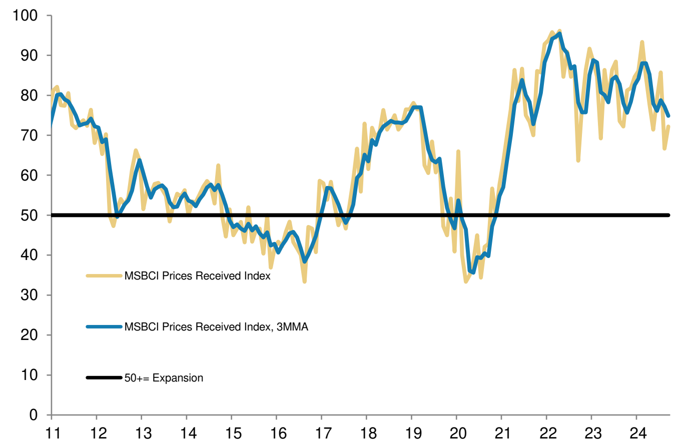
Exhibit 18: The MSBCI Prices Paid Index



Source: Morgan Stanley Research

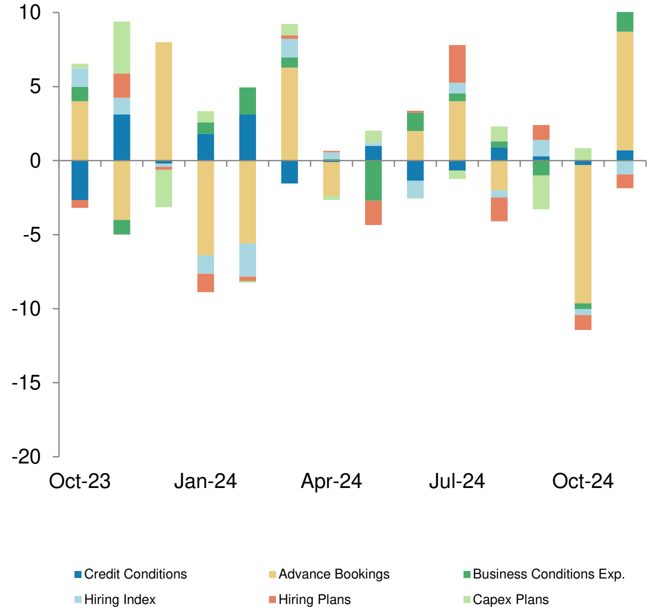
1. The composite MSBCI is calculated as a weighted average of the advanced bookings index, the credit conditions index, the business conditions expectations index, the hiring index, the hiring plans index, and the capex plans index.

Exhibit 19: The MSBCI Prices Received Index



Source: Morgan Stanley Research

Exhibit 20: Contributions to changes in the MSBCI Composite

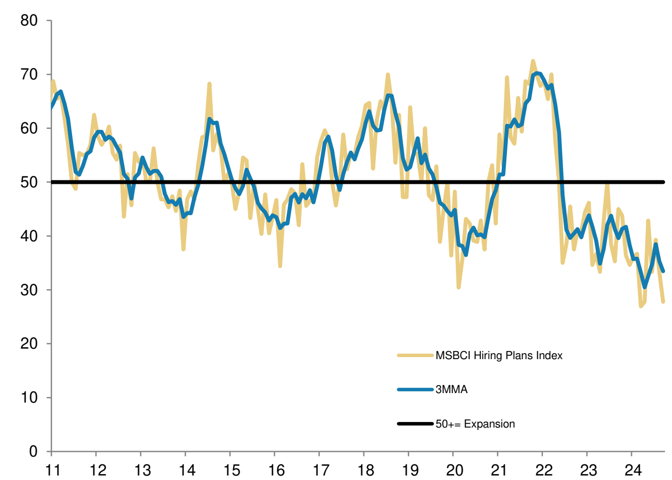


Source: Morgan Stanley Research

The MSBCI Hiring Index fell to 28 (vs 33 in October), while the forward-looking Hiring Plans Index also fell to 28 (vs 33 in October). **Both hiring indices remain in contraction** (Exhibit 21).

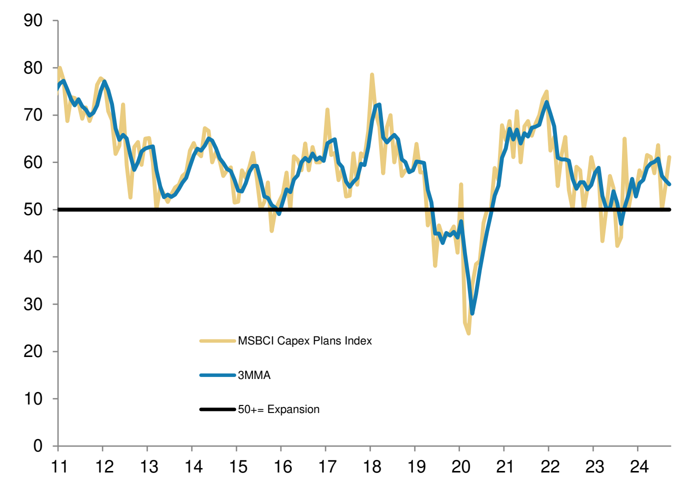
The MSBCI Capex Plans Index rose to 61 in November (vs 55 in October) **moving further into expansion** (Exhibit 22).

Exhibit 21: The MSBCI Hiring Plans Index



Source: Morgan Stanley Research

Exhibit 22: The MSBCI Capex Plans Index



Source: Morgan Stanley Research

What Respondents Are Saying About Their Industries

- **Telecommunication Services:** "Telcos largely reiterated full year guidance."
- **Oil & Gas Services**: "Trump presidency has brought expectations that their admin would favor policies reducing regulatory burdens and expanding fossil fuel production."
- **Machinery**: "I think construction and ag equipment demand activity are likely to decelerate further near term."
- **Chemicals**: "Recovery has stalled out as auto production has rolled over, rates haven't really come down, china is no better and post-election is not providing euphoria but rather trade/geopolitical uncertainty."
- **Leisure Products & Services**: "Rates coming down should improve discretionary spending."
- **Midstream Energy Infrastructure**: "More stable crude oil prices supporting oil and gas pipeline volumes; new natural gas pipeline projects to power data centers."
- **Gaming & Lodging**: "Hotel revpar is sluggish in the 0-2% range, Gaming revenue also flattish w/ Vegas arguably worse, but cruise a bit stronger pricing/demand."

Appendix

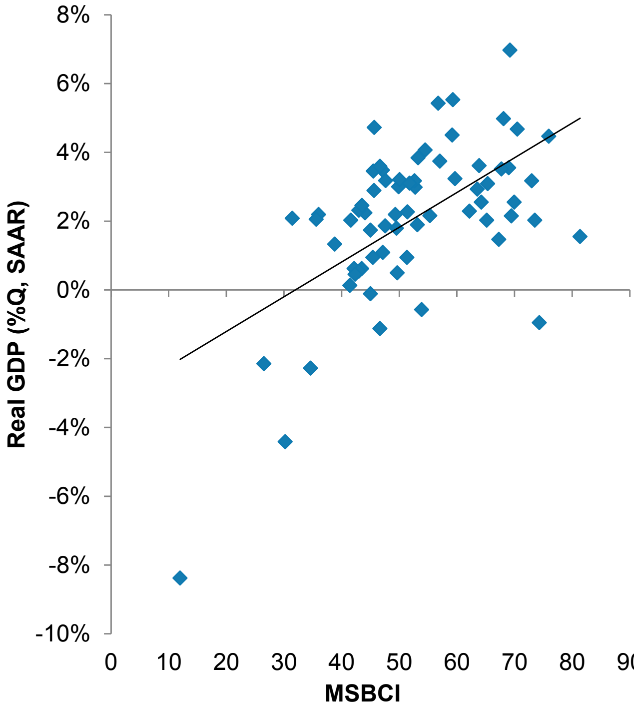
Tracking Economic Conditions with the MSBCI

The MSBCI and the MSBCI composite index that combines other survey details have performed well in capturing turning points in the US economy. For a diffusion index, 50 serves as a rule-of-thumb breakeven level. Above 50, a greater share of survey respondents are reporting improvements in business conditions than are reporting worsening business conditions. But diffusion indexes only focus on directional changes (up, down, same) and don't provide information on magnitudes. Besides, the MSBCI surveys analysts and not firms, which complicates even more the mapping between the index and GDP.

We analyze the correlation between QoQ GDP prints and the MSBCI to shed some light on the relationship between the MSBCI, the MSBCI composite, and economic activity. (The MSBCI is based on a single question about business conditions. The MSBCI composite combines survey details on bookings, credit conditions, expectations, hiring, hiring plans, and capex plans). Exhibit23 plots the quarterly average of the MSBCI against real GDP growth, and Exhibit24 plots the quarterly average of the MSBCI Composite against real GDP growth. To find the levels of the MSBCI and MSBCI Composite associated with no GDP growth, we calculated breakeven points for both of these indices, equal to the negative of the ratio of the estimated intercept and slope coefficient.

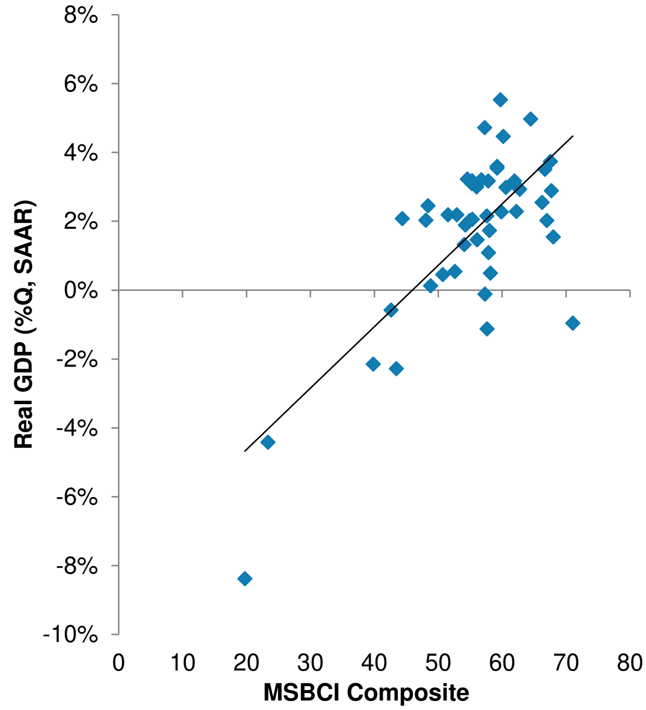
For the MSBCI headline index, we find that a reading above 33.0 is consistent with positive real GDP growth, and for the MSBCI Composite index we find that a reading above 46.1 is consistent with positive real GDP growth. Note from the chart below that the fit between the two series is not perfect, and the MSBCI should be regarded as one additional input in our forecast models.

Exhibit23: MSBCI above 33.0 is consistent with positive real GDP growth



Source: Bureau of Economic Analysis, Morgan Stanley Research

Exhibit24: MSBCI Composite above 46.1 is consistent with positive real GDP growth



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