

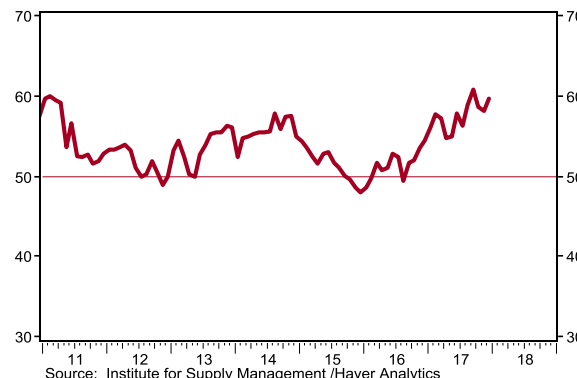
December ISM Manufacturing Index

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The ISM Manufacturing Index rose to 59.7 in December, easily beating the consensus expected 58.2. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in December, and all remain comfortably above 50, signaling growth. The new orders index rose to 69.4 from 64.0 in November, while the production index increased to 65.8 from 63.9. The supplier deliveries index rose to 57.9 from 56.5. The employment index declined to 57.0 from 59.7 in November.
- The prices paid index rose to 69.0 in December.

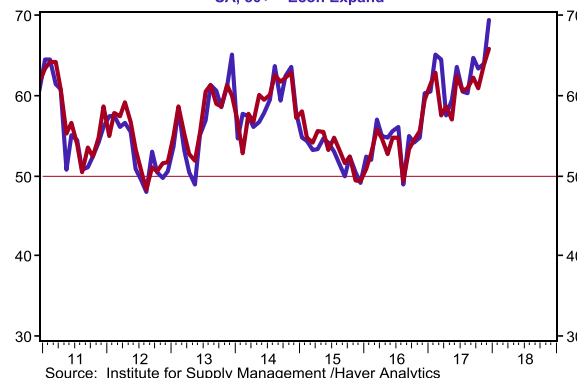
Implications: Optimism in the manufacturing sector soared in December as tax reform moved toward passage. Manufacturing activity closed out 2017 on a high note, with the ISM index hitting 59.7 in December, behind just September for the highest reading of the year and the fastest pace of expansion going back to 2011. And it was not just a short term boom to end the year, in 2017 the ISM manufacturing index averaged the highest readings for a calendar year going all the way back to 2004. In December, sixteen of eighteen industries reported growth (two reported declines), while respondents noted that the pickup is coming from increased customer activity in both the US and abroad. The two most forward-looking indices – new orders and production - led the way in December, rising to very healthy levels. In fact, new orders hit the highest reading going back all the way to 2004. This suggests that the strength shown by the manufacturing sector throughout 2017 should carry over into 2018. And now that Washington has made good on tax reform (and regulatory reform looks likely), the pace of growth could pick up even further. In other news this morning, construction spending rose 0.8% in November (+1.2% including revisions to prior months). A jump in home building and the construction of offices more than offset a decline in work on manufacturing facilities. In housing news from last week, the national Case-Shiller home price index increased 0.7% in October and is up 6.2% from a year ago. By contrast, home prices rose 5.2% in the year ending in October 2016, so we've had some acceleration in home price increases in the past year. In the last twelve months, price gains have been led by Seattle and Las Vegas. The recent tax bill, which trims state and local tax deductions as well as mortgage interest deductibility for new loans, should be a headwind for price gains in the next few years. However, given short housing supplies and an economy gaining strength, we're still likely to see solid national average price gains, just not as fast as the past year and with the gains tilted toward lower tax states.

ISM Mfg: PMI Composite Index
 SA, 50+ = Econ Expand



ISM Mfg: Production Index
 SA, 50+ = Econ Expand

ISM Mfg: New Orders Index
 SA, 50+ = Econ Expand



Institute for Supply Management Index	Dec-17	Nov-17	Oct-17	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	59.7	58.2	59.7	59.2	58.5	54.5
New Orders	69.4	64.0	63.4	65.6	63.7	60.3
Production	65.8	63.9	61.0	63.6	62.4	59.4
Inventories	48.5	47.0	48.0	47.8	50.3	47.0
Employment	57.0	59.7	59.8	58.8	58.7	52.8
Supplier Deliveries	57.9	56.5	61.4	58.6	58.8	53.0
Order Backlog (NSA)	56.0	55.0	55.0	55.3	56.1	49.0
Prices Paid (NSA)	69.0	65.5	68.5	67.7	66.4	65.5
New Export Orders	58.5	56.0	56.5	57.0	56.8	56.0

Source: National Association of Purchasing Management