First Trust DATAWATCH

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February ISM Manufacturing Index

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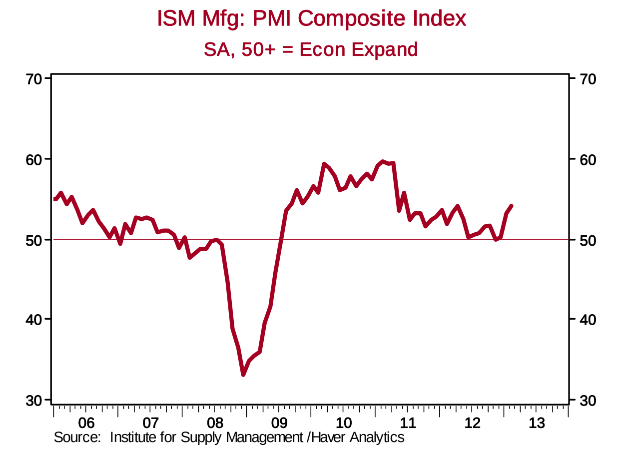
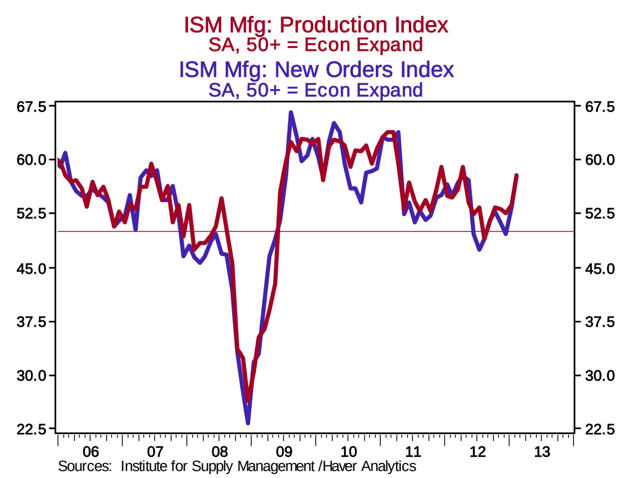
- The ISM manufacturing index rose to 54.2 in February from 53.1 in January, coming in well above the consensus expected 52.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in February but all remain above 50. The new orders index rose to 57.8 from 53.3 and the production index increased to 57.6 from 53.6. The employment index slipped to 52.6 from 54.0 and the supplier deliveries index fell to 51.4 from 53.6.
- The prices paid index rose to 61.5 in February from 56.5 in January.





Implications: The ISM manufacturing index surprised to the upside in February rising to 54.2, the best reading since June 2011, suggesting faster growth in the factory sector. According to the Institute for Supply Management, a level of 54.2 is consistent with real GDP growth of 3.7%. However, the Institute's estimates of real GDP growth based on the ISM Manufacturing number have generally been overshooting actual economic growth. More likely, today's data is consistent with what will be roughly 2.5% real GDP growth in Q1. The best news in today's ISM report was that the new orders index rose to 57.8, the highest level since April 2011 and great news for the manufacturing sector moving forward. The production index was also strong as it rose to the highest level since April of last year. Despite the softness shown in some regional manufacturing surveys, the overall manufacturing sector looks to be doing just fine. On the inflation front, the prices paid index rose to 61.5 in February from 56.5 in January. Given loose monetary policy, we expect prices, and inflation, to continue to gradually move higher. In other news this morning, construction declined 2.1% in January. However, including substantial upward revisions for commercial construction in prior months, the decline in January was only 0.2%. As a result of the revisions to construction in the fourth quarter, we are already upwardly revising our estimate for Q4 real GDP growth to a +0.5% annual rate. Only yesterday, the government pegged Q4 real growth at a +0.1% rate. Home building was essentially unchanged in January but is up 22% from a year ago. Multi-unit new homes are up 55% from a year ago. In the past year, the recovery in the housing sector has been the brightest spot in the overall recovery. Look for more of the same in 2013.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Feb-13	Jan-13	Dec-12	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Business Barometer	**54.2**	53.1	50.2	52.5	51.8	51.9
New Orders	**57.8**	53.3	49.7	53.6	52.7	54.9
Production	**57.6**	53.6	52.6	54.6	53.6	54.8
Inventories	**51.5**	51.0	43.0	48.5	48.5	49.5
Employment	**52.6**	54.0	51.9	52.8	52.4	52.1
Supplier Deliveries	**51.4**	53.6	53.7	52.9	51.5	48.4
Order Backlog *(NSA)*	**55.0**	47.5	48.5	50.3	46.3	52.0
Prices Paid *(NSA)*	**61.5**	56.5	55.5	57.8	56.5	61.5
New Export Orders	**53.5**	50.5	51.5	51.8	49.8	59.5

Source: National Association of Purchasing Management

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