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December ISM Manufacturing Index

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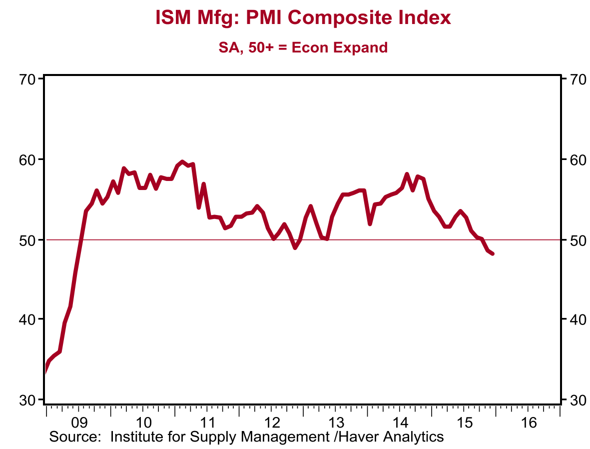
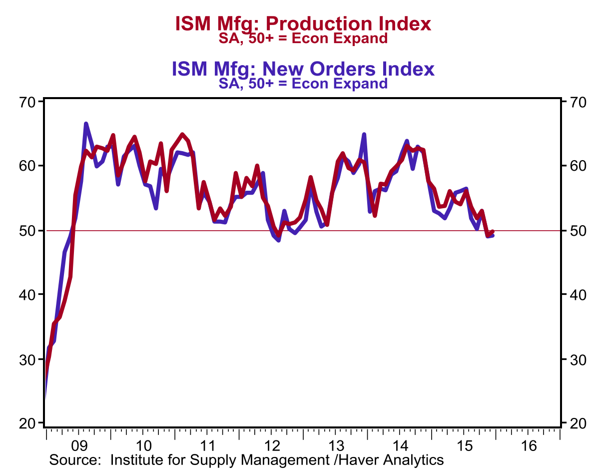
- The ISM manufacturing index declined to 48.2 in December, below the consensus expected level of 49.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were mixed in December. The employment index fell to 48.1 from 51.3, while the supplier deliveries index dropped to 50.3 from 50.6. The production index increased to 49.8 from 49.2, and the new orders index rose to 49.2 from 48.9.

- The prices paid index declined to 33.5 in December from 35.5 in November.





Implications: Today's ISM report starts 2016 with a fizzle, not a bang, with the Manufacturing index hitting the lowest level since the end of the recession in 2009. While we would prefer the manufacturing sector show the same solid pace of recovery as the much larger services sector, we don't see the recent slowdown in manufacturing as a sign of looming doom. Today's data continues to highlight a stark contrast in two broad sectors of the economy: services, where the economy is expanding briskly and prices are rising, versus goods, where both growth and inflation are soft to non-existent. ISM survey respondents cited low energy prices as a leading culprit in December, as it continues to hurt companies in the energy sector and looks to be causing some companies to delay new purchases as they get improved margins from their existing machinery. Adding to the trouble, stores say they are still working through excess inventories that resulted from overaggressive purchasing in early 2015. There are two important things to remember with today's report. First, the manufacturing sector represents a much smaller portion of the economy than the service sector, which grew much more rapidly in 2015. Paired with solid gains in employment and wages, as well as positive trends in housing and consumer spending, the economic fundamentals suggest a recession is nowhere in sight. Second, the inventory buildup is a temporary factor. In other words, ignore headlines that suggest the sky is falling and that the Fed should hold off on further rate hikes (or, from the super doves, calls for rates to be cut back to zero.) The modest readings from the ISM manufacturing report in 2015, after peaking at 58.1 in August 2014, have given some pessimists reason to cheer, but we see no broad-based evidence of a significant slowdown. And remember, the ISM is a survey which can reflect sentiment as much as actual economic activity. Overall activity isn't booming, but it does continue to plow forward at a modest pace. In other news this morning, construction declined 0.4% in November, led by a drop in government projects and chemical manufacturing facilities. Single-family home building rose 0.6% and we expect a large gain in December given unusually warm December weather. In spite of the drop in overall construction in November, it's still up 10.5% from a year ago and likely headed higher in 2016.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Dec-15	Nov-15	Oct-15	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Business Barometer	**48.2**	48.6	50.1	49.0	50.2	55.1
New Orders	**49.2**	48.9	52.9	50.3	51.6	57.8
Production	**49.8**	49.2	52.9	50.6	52.2	57.7
Inventories	**43.5**	43.0	46.5	44.3	46.6	45.5
Employment	**48.1**	51.3	47.6	49.0	50.2	56.0
Supplier Deliveries	**50.3**	50.6	50.4	50.4	50.2	58.6
Order Backlog *(NSA)*	**41.0**	43.0	42.5	42.2	42.8	52.5
Prices Paid *(NSA)*	**33.5**	35.5	39.0	36.0	38.2	38.5
New Export Orders	**51.0**	47.5	47.5	48.7	47.8	52.0

Source: National Association of Purchasing Management