

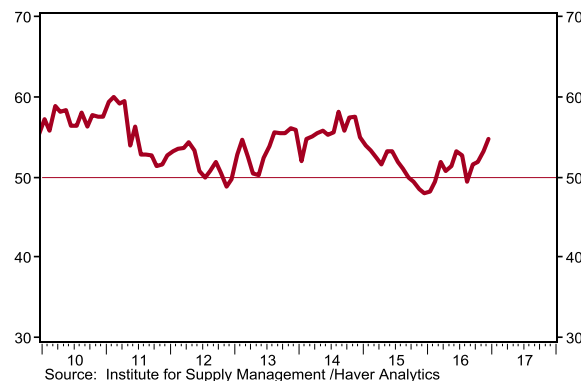
# December ISM Manufacturing Index

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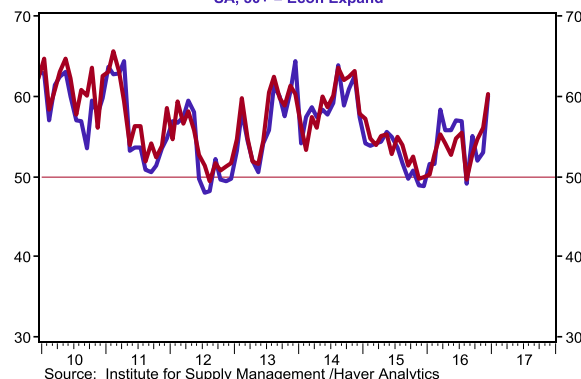
- The ISM manufacturing index rose to 54.7 in December, beating the consensus expected level of 53.8. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in December, and all stand above 50, signaling growth. The new orders index surged to 60.2 from 53.0 in November, while the production index increased to 60.3 from 56.0. The employment index moved higher to 53.1 from 52.3, while the supplier deliveries index declined to 52.9 from 55.7 in November.
- The prices paid index increased to 65.5 in December from 54.5 in November.

**Implications:** Manufacturing ended 2016 on a high note, with the ISM manufacturing survey hitting the highest reading in two years. And December’s increase represents the fourth consecutive month that the index has moved higher, signaling faster growth. Both the new orders and production indices hit multi-year highs, suggesting that 2017 should hit the ground running as factories gear up to fill increased demand. Some of this may be in part due to President-Elect Trump’s focus on the manufacturing sector, but we think the likelihood of tax and regulatory reform are boosting confidence across industries and will benefit both the manufacturing and service sectors. The employment index also hit a 2016 high in December after being the only major indicator to decline in November. That said, manufacturing remains a small portion of total employment. We tend to focus on other signals of labor force strength (initial claims, earnings growth, and consumer spending) which have shown constant strength even through some turbulent times for the manufacturing sector. On the inflation front, the prices paid index skyrocketed to 65.5 in December from 54.5 in November, with eighteen commodities rising in price while just three declined. So any claims that rising prices are just a reflection of the rebound in oil prices are missing the mark. Yes, energy prices have been on the rise since bottoming in early-2016, but rising economic activity is starting to put pressure on a wide variety of inputs. This, paired with rising energy, is likely to push inflation above the Fed’s 2% target in 2017. As a whole, today’s report shows the Plow Horse manufacturing sector starting to hit its stride as the nation prepares to pass the reins to a new President. In other news this morning, construction spending increased 0.9% in November (+0.8% including revisions to October). New single-family home building led the way, while hotel construction and public schools also increased.

**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-16	Nov-16	Oct-16	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
<b>Business Barometer</b>	<b>54.7</b>	53.2	51.9	53.3	52.2	48.0
<i>New Orders</i>	<b>60.2</b>	53.0	52.1	55.1	54.4	48.8
<i>Production</i>	<b>60.3</b>	56.0	54.6	57.0	54.8	49.9
<i>Inventories</i>	<b>47.0</b>	49.0	47.5	47.8	48.6	43.5
<i>Employment</i>	<b>53.1</b>	52.3	52.9	52.8	51.0	48.0
<i>Supplier Deliveries</i>	<b>52.9</b>	55.7	52.2	53.6	52.3	49.8
<i>Order Backlog (NSA)</i>	<b>49.0</b>	49.0	45.5	47.8	47.8	41.0
<i>Prices Paid (NSA)</i>	<b>65.5</b>	54.5	54.5	58.2	55.9	33.5
<i>New Export Orders</i>	<b>56.0</b>	52.0	52.5	53.5	52.9	51.0

Source: National Association of Purchasing Management