

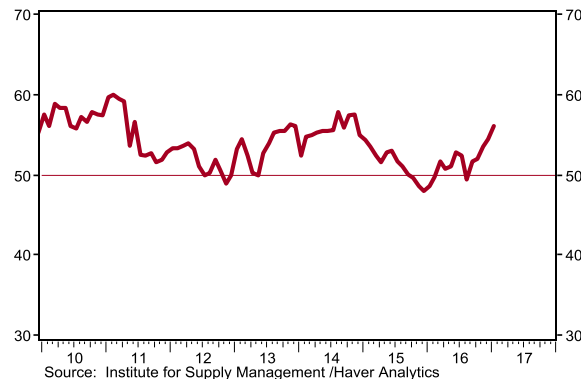
January ISM Manufacturing Index

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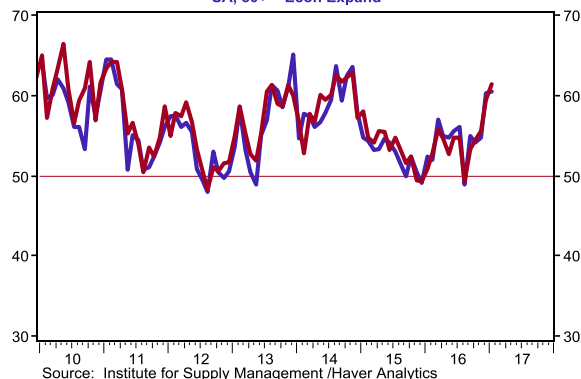
- The ISM manufacturing index rose to 56.0 in January, beating the consensus expected level of 55.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all higher in January, and all stand above 50, signaling growth. The employment index jumped to 56.1 from 52.8 in December, while the production index increased to 61.4 from 59.4. The supplier deliveries index moved higher to 53.6 from 53.0, while the new orders index rose to 60.4 from 60.3 in December.
- The prices paid index increased to 69.0 in January from 65.5 in December.

Implications: Manufacturing opened 2017 on a high note, with the ISM manufacturing survey hitting the highest reading in more than two years and the best reading to start a year going back to 2011. And every major category of activity showed a faster pace of expansion in January. Factories hit the ground running, with the production index rising to 61.4 in January, a multi-year high. Add in continued growth in the pace of new orders and production should continue to show healthy growth in the months ahead. Plus, President Trump has promised tax cuts and regulatory reforms, likely boosting confidence across industries. The employment index showed the largest increase in January, rising to 56.1 from 52.8 in December. That said, manufacturing remains a small portion of total employment. For a better picture of labor market health, we tend to focus on broader signals (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 jumped to 69.0 in January from 65.5 in December, with more than twenty commodities rising in price while not a single commodity reported lower. So any suggestion that rising prices are just a reflection of the rebound in oil prices misses the mark. Rising economic activity, the lagged effect of loose monetary policy, is starting to put pressure on a wide variety of inputs, and it looks increasingly likely that inflation will rise above the Fed's 2% target in 2017. In other news earlier this morning, the ADP index says private payrolls increased 246,000 in January. Plugging this into our models suggests Friday's official Labor report will show a nonfarm increase of 197,000 (versus a consensus 175,000), although we may tweak this forecast slightly based on tomorrow's report on unemployment claims. On the housing front, pending home sales, which are contracts on existing homes, increased 1.6% in December, suggesting a small gain in closings on existing homes in January. The national Case-Shiller index, which measures home prices, increased 0.8% in November and is up 5.6% from a year ago, an acceleration from the 5.2% gain in the year ending in November 2015. Price gains in the past twelve months have been led by Seattle and Portland, with the slowest gains in New York City and Washington, DC. Construction spending declined 0.2% in December (unchanged including revisions to prior months), as a decline in manufacturing and educational facilities more than offset a pickup in home building.

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 <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Jan-17	Dec-16	Nov-16	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	56.0	54.5	53.5	54.7	52.9	48.6
New Orders	60.4	60.3	54.8	58.5	55.6	52.3
Production	61.4	59.4	55.6	58.8	55.6	50.9
Inventories	48.5	47.0	49.0	48.2	48.4	43.5
Employment	56.1	52.8	52.5	53.8	52.0	46.2
Supplier Deliveries	53.6	53.0	55.5	54.0	52.7	50.1
Order Backlog (NSA)	49.5	49.0	49.0	49.2	48.0	43.0
Prices Paid (NSA)	69.0	65.5	54.5	63.0	58.3	33.5
New Export Orders	54.5	56.0	52.0	54.2	53.3	47.0

Source: National Association of Purchasing Management