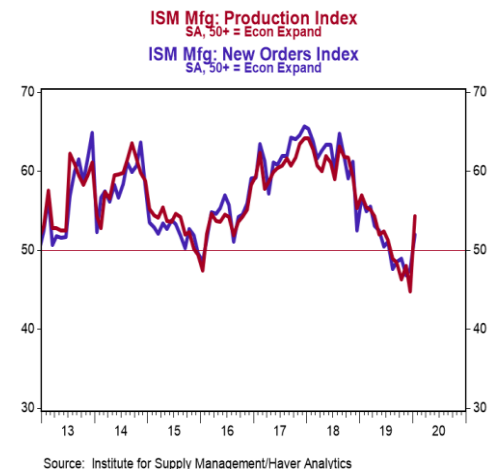
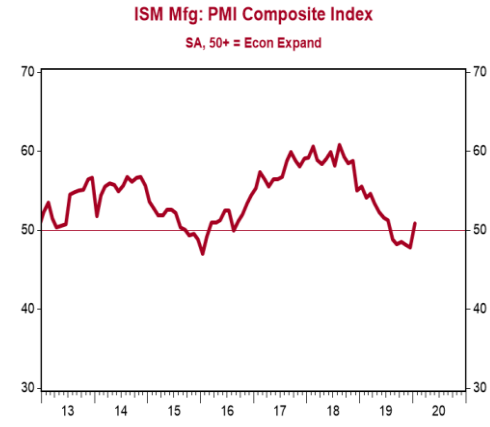


January ISM Manufacturing Index

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- The ISM Manufacturing Index rose to 50.9 in January, easily beating the consensus expected 48.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in January. The production index jumped to 54.3 from 44.8 in December, while the new orders index rose to 52.0 from 47.6. The employment index increased to 46.6 from 45.2. The supplier deliveries index declined to 52.9 from 54.6 in December.
- The prices paid index rose to 53.3 in January from 51.7 in December.

Implications: Manufacturing activity jumped back into gear to start 2020, increasing the most for any single month since 2013 and returning to expansion territory for the first time since July 2019. Of the eighteen industries reporting, eight showed growth in January, eight reported contraction, and two reported no change. While trade continues to weigh on respondents’ comments, the ISM reports that “many respondents were positive for the first time in several months.” And based on the survey numbers, they have good reason to be perking up. The two most forward-looking indices - new orders and production – both saw a notable rise in January and broke above 50, signaling expansion. The production index surged 9.5 points in January (the largest single-month increase in more than six years) to 54.3, while new orders rose 4.4 points to 52.0, moving to expansion levels after five months in contraction territory. We expect the ISM index to continue showing moderate expansion in the months ahead, proving the fears over last year’s dip below 50 to have been overdone. The ISM data simply haven’t been matching what we are seeing from other reports. Personal income and spending data for 2019 showed goods consumption rose 6.2% for the year, the largest annual increase for the series in fifteen years! So, with consumers clearly buying and companies apparently not producing, something needed to give. In fact, today’s report showed the customers’ inventories remained in contraction territory at 43.8 in January. Customers’ inventories have now been declining for 40 consecutive months, which is a positive for future factory output (and future GDP). Given that we are also not seeing a pickup in layoffs – something you would expect to see if business had truly slowed significantly - we have leaned toward the hard data as a more reliable gauge of economic health. Speaking of workers, the employment index rose to 46.6 from 45.2 in December. We are forecasting that manufacturing payrolls declined by 7,000 in January, but that nonfarm payrolls as a whole rose a healthy 165,000. Finally, on the inflation front, the prices paid index rose to 53.3 in January, pushed higher due primarily to metals (namely steel and aluminum). Paired with data on GDP growth, employment, and consumer spending, the economy remains on solid footing as we start the new decade. In other news this morning, construction spending declined 0.2% in December (but was up 0.3% including revisions to prior months), coming in below the consensus expected gain of 0.5%. A slowdown in the production of manufacturing facilities and commercial projects were partially offset by a pickup in home building. Given the upward revisions to prior months, it now looks like real GDP grew at a 2.2% annual rate in Q4, a tick higher than the 2.1% rate the government reported last week.



Institute for Supply Management Index	Jan-20	Dec-19	Nov-19	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	50.9	47.8	48.1	48.9	48.7	55.5
New Orders	52.0	47.6	46.8	48.8	48.6	56.8
Production	54.3	44.8	48.0	49.0	48.5	57.0
Inventories	48.8	49.2	47.2	48.4	48.2	52.9
Employment	46.6	45.2	46.8	46.2	46.8	55.2
Supplier Deliveries	52.9	54.6	52.0	53.2	51.9	56.2
Order Backlog (NSA)	45.7	43.3	43.0	44.0	44.6	50.3
Prices Paid (NSA)	53.3	51.7	46.7	50.6	48.8	49.6
New Export Orders	53.3	47.3	47.9	49.5	47.2	51.8

Source: National Association of Purchasing Management