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February 1, 2021 • 630.517.7756 • www.ftportfolios.com

January ISM Manufacturing Index

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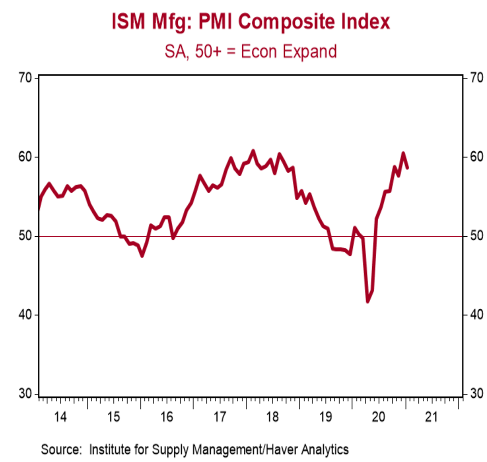
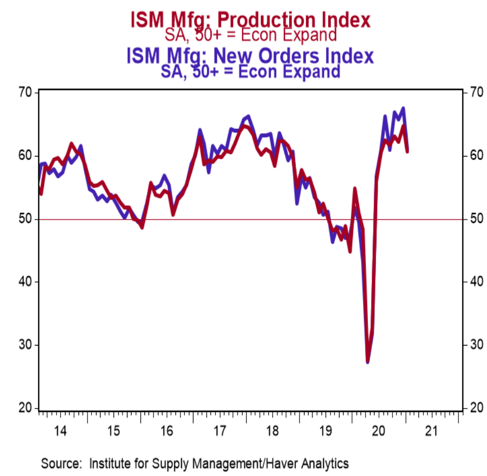
- The ISM Manufacturing Index declined to 58.7 in January, coming in short of the consensus expected 60.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were mixed in January, but all stand above 50, signaling growth. The new orders index fell to 61.1 from 67.5 in December, while the production index declined to 60.7 from 64.7. The employment index rose to 52.6 from 51.7, and the supplier deliveries index increased to 68.2 from 67.7 in December.

- The prices paid index surged to 82.1 in January from 77.6 in December.





Implications: The manufacturing sector started 2021 on firm footing, as expansion continues, though at a slightly slower pace than in December. Following a tumultuous period from March to May as lockdowns and COVID-19 uncertainty put much of the business world on hold, manufacturing expansion has been rising steadily since. While down modestly from the 60.5 reading in December (which marked the highest headline reading for the index since late 2018), January's easing provides no reason for concern. The pickup in activity remains broad-based, with sixteen of eighteen industries reporting expansion, while only two – printing & related support activities, and petroleum & coal products – reported contraction. And respondent comments remain largely upbeat, with three positive comments for every cautious comment. Reponses like "business remains strong," "current business demand is going way past pre-COVID-19 [levels]," and "factory capacity is well utilized," are partially offset by the now commonplace notes about difficulties on the labor side, be that due to absenteeism, short-term shutdowns while facilities are sanitized, or simply because qualified workers are in short-supply. Combined, these headwinds are causing delays further down the line in supplier deliveries (note the supplier deliveries index rising to 68.2 in January from an already elevated 67.7 in December), with seventeen of eighteen industries reporting longer delivery times in January. While companies report that demand is healthy, the inability of supply to meet that demand is causing price pressures to build. Case in point, the prices paid index surged to 82.1 in January, the highest reading for that index in nearly a decade, as all eighteen industries reported increased prices for raw materials. In total, forty-five commodities (particularly metals like steel) were reported up in price, while just one – caustic soda - was reported lower. Inflation looks likely to be a key topic in 2021, with the M2 money supply up an incredible 26.8% over the last twelve months, at the same time supply chains struggle to catch up to demand. Speaking of demand, the two most forward-looking indices – new orders and production – moved lower in January, but remain comfortably in expansion territory with robust readings in the 60s. And given that the customers' inventories index remains near the lowest reading in more than a decade at 33.1 in January, while at the same time the backlog of orders index (which show orders rising faster than production can fill them) hit a multi-year high at 59.7, the data suggest activity should remain robust for the foreseeable future. The employment index, meanwhile, moved higher in January. That said, other measures of the jobs market provide a better guide of what we should expect from this Friday's employment report. While it may change with data out over the coming days, we are projecting that Friday's report on payrolls will show manufacturing jobs flat, while total nonfarm payrolls grow by around 50,000. All-in-all, we expect 2021 to be a year of continued growth in the manufacturing sector, as we get back toward "normal." In other news this morning, construction spending increased 1.0% in December (+2.1% including revisions to prior months), narrowly beating the consensus expected +0.9%. The gain was led by the continued surge in single-family home building – much needed, just take a look at home prices – which was partially offset by declines in most public construction categories.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Jan-21	Dec-20	Nov-20	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Business Barometer	**58.7**	60.5	57.7	59.0	57.8	51.1
New Orders	**61.1**	67.5	65.7	64.8	64.7	51.8
Production	**60.7**	64.7	62.2	62.5	62.5	54.8
Inventories	**50.8**	51.0	50.8	50.9	49.5	48.9
Employment	**52.6**	51.7	48.3	50.9	50.1	46.8
Supplier Deliveries	**68.2**	67.7	61.7	65.9	62.6	53.0
Order Backlog *(NSA)*	**59.7**	59.1	56.9	58.6	56.9	45.7
Prices Paid *(NSA)*	**82.1**	77.6	65.4	75.0	68.8	53.3
New Export Orders	**54.9**	57.5	57.8	56.7	55.6	53.3

Source: National Association of Purchasing Management