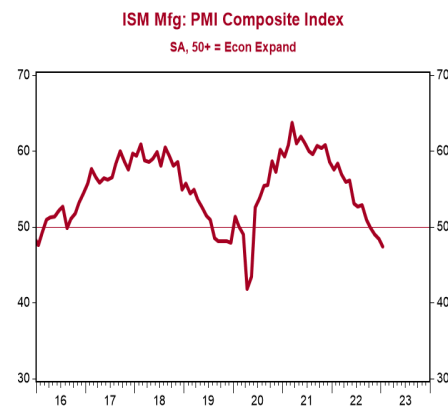


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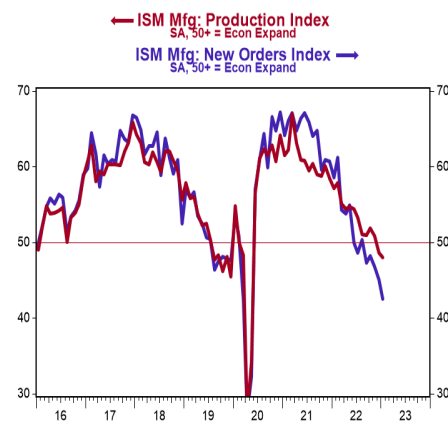
January ISM Manufacturing Index

- The ISM Manufacturing Index declined to 47.4 in January, lagging the consensus expected 48.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in January. The production index declined to 48.0 from 48.6 in December, while the new orders index fell to 42.5 from 45.1. The supplier deliveries index rose to 45.6 from 45.1 in December and the employment index declined to 50.6 from 50.8.
- The prices paid index rose to 44.5 in January from 39.4 in December.

Implications: The US manufacturing sector fell further into contraction territory in December with only two of eighteen industries reporting growth. Respondent comments in January showed customers pulling back on purchases of manufactured goods as well as improvements in the supply-chain issues that have plagued the factory sector over the past few years. Given that consumers have been shifting their preferences away from goods and back toward services, it wasn't surprising to see the new orders index decline for a third consecutive month in January. However, worries about the future have now caused factories to slow down the pace of production, with that index declining further in January. However, there was some good news in today's report. Though the employment index also declined modestly in January, it remained in expansion territory. Surprisingly, panelist sentiment shifted sharply in January with a majority saying they are looking to hire rather than reduce headcount. Part of this may be the recent weakening in the US dollar which could be spurring a rebound in export orders. Meanwhile, data on supply-chain pressures continue to look reassuring. For example, though the supplier deliveries index rose slightly to 45.6 in January, that was still the second lowest reading since 2009! When this index is below 50, it means deliveries are speeding up. Finally, though the prices paid index in today's report rose for the first time in ten months it still remains in contraction territory. While lower prices for some goods will help moderate overall inflation, we expect the services sector will now be the main driver going forward, keeping inflation well above the Fed's 2% target. In labor market news this morning, the ADP employment report showed a gain of 106,000 private-sector jobs in January, well below the consensus estimate of 180,000. After plugging today's numbers into our model, we expect Friday's employment report to show a nonfarm payroll gain of 185,000. We also got data on construction, which showed that spending declined 0.4% in December, with large declines in residential and manufacturing projects more than offsetting gains in roads. In other recent news, national average home prices continued to trend downward in November, with the Case-Shiller index declining 0.3% and the FHFA index, which tracks homes financed by conforming mortgages, slipping 0.1%. Although both indexes are still up about 8% from a year ago, they are also both down from the June 2022 peak, with the Case-Shiller down 2.5% and the FHFA down 1%. Expect further home price declines until at least late this year. In the past three months, prices are down the most in Las Vegas, Phoenix, and San Francisco.



Source: Institute for Supply Management/Haver Analytics



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Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Jan-23	Dec-22	Nov-22	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	47.4	48.4	49.0	48.3	49.8	57.6
New Orders	42.5	45.1	46.8	44.8	46.7	58.6
Production	48.0	48.6	50.9	49.2	50.3	57.2
Inventories	50.2	52.3	51.1	51.2	52.5	53.2
Employment	50.6	50.8	48.9	50.1	50.6	53.8
Supplier Deliveries	45.6	45.1	47.2	46.0	48.7	64.6
Order Backlog (NSA)	43.4	41.4	40.0	41.6	45.7	56.4
Prices Paid (NSA)	44.5	39.4	43.0	42.3	46.3	76.1
New Export Orders	49.4	46.2	48.4	48.0	48.0	53.7

Source: National Association of Purchasing Management