

December ISM Manufacturing Index

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- The ISM manufacturing index rose to 50.7 in December from 49.5 in November, coming in slightly above the consensus expected 50.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in December but all were above 50. The new orders index remained unchanged at 50.3 while the employment index rose to 52.7 from 48.4. The supplier deliveries index increased to 54.7 from 50.3 while the production index fell to 52.6 from 53.7.
- The prices paid index rose to 55.5 in December from 52.5 in November.

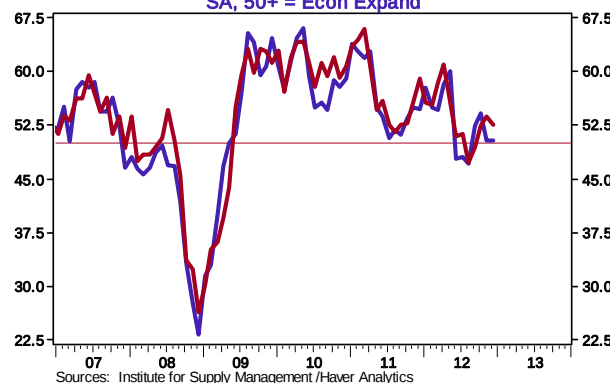
Implications: The New Year starts with reports like many of last year's, one up, one down. Manufacturing sentiment surprised on the upside in December, with the ISM manufacturing index rising to 50.7, only the third time in the last seven months that the index has been above 50. According to the Institute for Supply Management, a level of 50.7 is consistent with real GDP growth of 2.7%. More likely, today's data is consistent with what will be roughly 1.5% real GDP growth in Q4. We expect manufacturing to rebound over the coming months as policy uncertainty and the effects of Sandy continue to subside. The best news in today's ISM report was that the employment index showed expansion, coming in at 52.7. Also, the new orders index, although remaining unchanged at 50.3, showed expansion for the fourth straight month. On the inflation front, the prices paid index rose to 55.5 in December from 52.5 in November. We expect prices, and inflation, to continue to gradually move higher. In other news this morning, construction declined 0.3% in November (-0.7% including revisions for prior months). The decline in November was due to commercial construction (particularly power plants) and federal government construction. Meanwhile, home building was up 0.4% in November, led by new single-family homes. All residential construction – single-family, multi-family, and improvements – is up 19% from a year ago.

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-12	Nov-12	Oct-12	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	50.7	49.5	51.7	50.6	50.5	53.1
New Orders	50.3	50.3	54.2	51.6	50.4	54.8
Production	52.6	53.7	52.4	52.9	51.1	58.9
Inventories	43.0	45.0	50.0	46.0	48.4	45.5
Employment	52.7	48.4	52.1	51.1	51.9	54.8
Supplier Deliveries	54.7	50.3	49.6	51.5	50.5	51.5
Order Backlog (NSA)	48.5	41.0	41.5	43.7	43.4	48.0
Prices Paid (NSA)	55.5	52.5	55.0	54.3	52.4	47.5
New Export Orders	51.5	47.0	48.0	48.8	48.1	53.0

Source: National Association of Purchasing Management