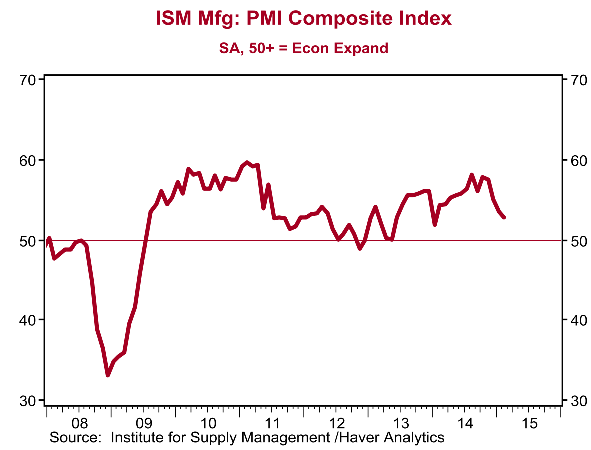
First Trust DATAWATCH

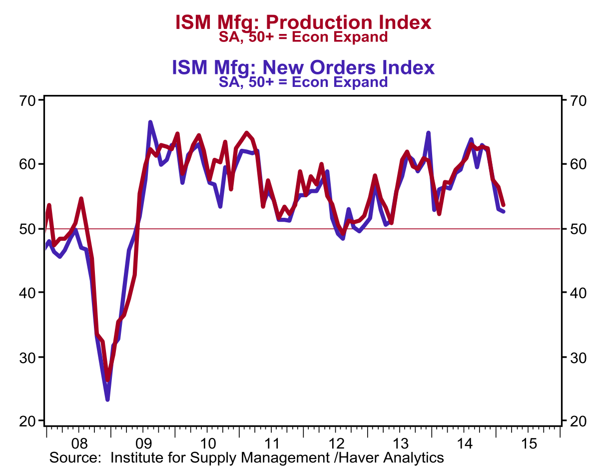
March 2, 2015 • 630.517.7756 • www.ftportfolios.com

February ISM Manufacturing Index

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The ISM manufacturing index declined to 52.9 in February from 53.5 in January, coming in slightly below the consensus expected level of 53.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in February, but all remain above 50, signaling growth. The production index fell to 53.7 from 56.5, while the employment index dropped to 51.4 from 54.1. The new orders index eased to 52.5 from 52.9. The supplier deliveries index rose to 54.3 from 52.9 in January.
- The prices paid index was unchanged at 35.0 in February.





Implications: The ISM manufacturing index, which measures factory sentiment around the country, declined in February, but remained above 50 for a 21st consecutive month. Companies reported that the West Coast port strikes depressed activity and made it tougher for exporters to get their wares abroad. However, a labor agreement was reached late in the month and business should return to normal in the months ahead. We don't believe the decline in the ISM index from 58.1 in August to the current reading of 52.9 is anything to worry about. The fundamentals of the economy have not changed in any significant way and we consider this normal volatility. According to the Institute for Supply Management, an overall index level of 52.9 is consistent with real GDP growth of 3.2% annually. This ISM-calculated relationship has over-estimated real GDP growth in the past several years, although mid-2014 real growth came close. As a result, we see today's data as consistent with our forecast of a roughly 2% real GDP growth rate in Q1. On the inflation front, the prices paid index remained depressed at 35.0 in February, tied with January for the lowest level since April 2009. No major surprise here given the huge drop in energy prices since mid-2014. Although we still think inflation will move higher in the next couple of years, it's going to be a long slog upward. The employment index dipped in February to 51.4, signaling continued growth, but at a slightly slower pace than recent months. Right now, we're forecasting a nonfarm payroll gain of 253,000 in February, another solid month. Taken as a whole, this month's report shows the Plow Horse continues to plod forward. In other news this morning, construction declined 1.1% in January, with a large drop in government projects and broad declines in commercial construction (particularly shopping centers/malls). These declines offset gains in new home building as well as manufacturing facilities.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Feb-15	Jan-15	Dec-14	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Business Barometer	**52.9**	53.5	55.1	53.8	55.5	54.3
New Orders	**52.5**	52.9	57.8	54.4	58.0	56.1
Production	**53.7**	56.5	57.7	56.0	59.3	52.1
Inventories	**52.5**	51.0	45.5	49.7	50.8	52.5
Employment	**51.4**	54.1	56.0	53.8	54.3	52.8
Supplier Deliveries	**54.3**	52.9	58.6	55.3	55.3	57.9
Order Backlog *(NSA)*	**51.5**	46.0	52.5	50.0	50.8	52.0
Prices Paid *(NSA)*	**35.0**	35.0	38.5	36.2	44.3	60.0
New Export Orders	**48.5**	49.5	52.0	50.0	51.7	53.5

Source: National Association of Purchasing Management