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February ISM Manufacturing Index

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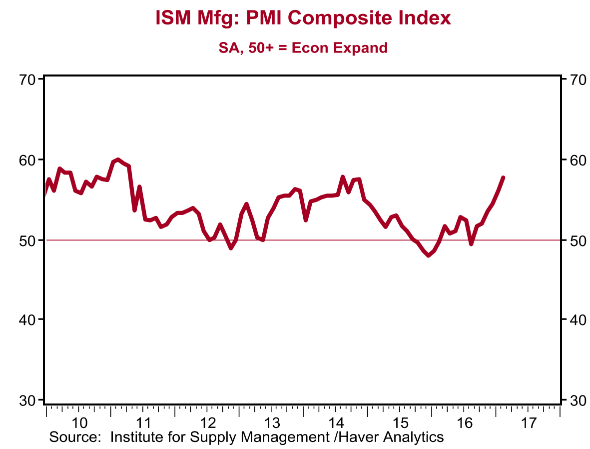
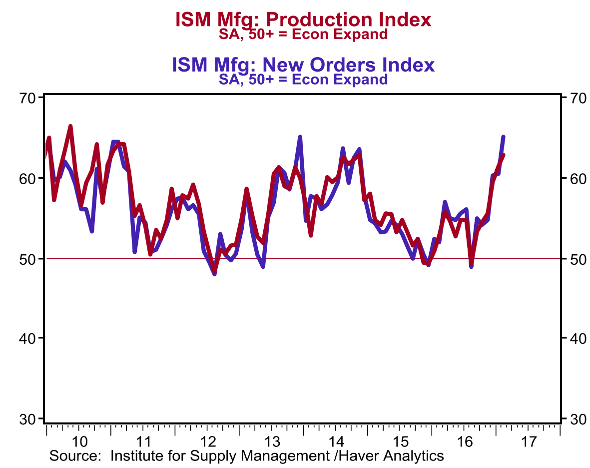
- The ISM manufacturing index rose to 57.7 in February, easily beating the consensus expected level of 56.2. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in February, and all stand above 50, signaling growth. The new orders index jumped to 65.1 from 60.4 in January, while the production index increased to 62.9 from 61.4. The supplier deliveries index moved higher to 54.8 from 53.6. The employment index fell to 54.2 from 56.1 in January.
- The prices paid index declined to 68.0 in February from 69.0 in January.





Implications: The ISM manufacturing survey hit a two-and-a-half year high in February, and is off to the best start to a year since 2011. Factories continue to ramp up activity, with the production index rising to 62.9 in February as seventeen of eighteen industries reported growth. Add in continued growth in the pace of new orders and production should continue to show healthy growth in the months ahead. Plus, President Trump has promised tax cuts and regulatory reforms, likely boosting confidence across industries. The employment index was the only major index to decline in February, but remember that levels about 50 signal growth, so the February reading of 54.2 represents continued expansion but at a slower pace than in January. That said, manufacturing remains a small portion of total employment. For a better picture of labor market health, we tend to focus on broader signals (initial claims, earnings growth, and consumer spending) which have shown constant strength even through some turbulent times for the manufacturing sector. On the inflation front, the prices paid index was nearly unchanged at 68.0 in February from 69.0 in January, with more than twenty commodities rising in price while just one, scrap metal, reported lower. So any suggestion that rising prices are just a reflection of the rebound in oil prices misses the mark. Rising economic activity, the lagged effect of loose monetary policy, is putting pressure on a wide variety of inputs, and putting pressure on the Fed not to fall behind the curve in raising rates that are too low for the current environment. In other economic news this morning, construction spending declined 1.0% in January (-0.1% including revisions to prior months), as a decline in state and local construction of airport terminals and bridges more than offset a pickup in home building.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Feb-17	Jan-17	Dec-16	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	**57.7**	56.0	54.5	56.1	54.2	49.7
New Orders	**65.1**	60.4	60.3	61.9	58.3	52.1
Production	**62.9**	61.4	59.4	61.2	57.8	52.9
Inventories	**51.5**	48.5	47.0	49.0	48.8	45.0
Employment	**54.2**	56.1	52.8	54.4	52.9	48.6
Supplier Deliveries	**54.8**	53.6	53.0	53.8	53.3	50.0
Order Backlog (NSA)	**57.0**	49.5	49.0	51.8	49.9	48.5
Prices Paid (NSA)	**68.0**	69.0	65.5	67.5	60.8	38.5
New Export Orders	**55.0**	54.5	56.0	55.2	53.7	46.5

Source: National Association of Purchasing Management