

# December ISM Manufacturing Index

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

- The ISM manufacturing index declined to 55.5 in December from 58.7 in November, coming in below the consensus expected level of 57.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in December, but all remain above 50, signaling growth. The production index fell to 58.8 from 64.4, while the new orders index dropped to 57.3 from 66.0. The supplier deliveries index rose to 59.3 from 56.8, and the employment index increased to 56.8 from 54.9 in November.
- The prices paid index fell to 38.5 in December from 44.5 in November.

**Implications:** The ISM manufacturing index, which measures factory sentiment around the country, declined in December, but remained above 50 for the 19<sup>th</sup> consecutive month. A slight dip in the index from 58.7 in November to the current reading of 55.5 is nothing to worry about and signals that the manufacturing sector continues to expand at a healthy clip. According to the Institute for Supply Management, an overall index level of 55.5 is consistent with real GDP growth of 4.1% annually. This ISM-calculated relationship has over-estimated real GDP growth in the past several years, but mid-2014 real growth came close. We expect an annual growth rate of 3% for real GDP in Q4, so the ISM may be overestimating again. On the inflation front, the prices paid index fell to 38.5 in December, the lowest level since June 2012. No surprise here...it happens every time oil prices fall. Although we still think inflation will move higher in the next couple of years, it's going to be a long slog upward. In other news today, construction declined 0.3% in November and is up 2.4% from a year ago. The drop in November was due to a decline in government construction projects. Private construction spending rose and sits at the highest level now since 2008. In other recent news, new claims for unemployment insurance increased 17,000 to 298,000. Continuing claims for jobless benefits dropped 53,000 to 2.35 million. Plugging these figures into our models suggests a nonfarm payroll gain of 202,000 in December, another solid month. Also earlier this week, the national Case-Shiller index, which measures home prices across the country, increased 0.7% in October and is up 4.6% from a year ago. The largest gains in the past year have been in Miami, San Francisco, and Las Vegas. For the year ahead, prices will keep working their way higher but at an even slower pace, more like 3 – 4%. In other recent housing news, pending home sales, which are contracts on existing homes, rose 0.8% in November and are up 1.7% from a year ago. The gain suggests existing home sales, which are counted at closing and which dropped in November, will rebound in December.

**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



<b>Institute for Supply Management Index</b> <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	<b>Dec-14</b>	<b>Nov-14</b>	<b>Oct-14</b>	<b>3-month moving avg</b>	<b>6-month moving avg</b>	<b>Year-ago level</b>
<b>Business Barometer</b>	<b>55.5</b>	58.7	59.0	57.7	57.7	56.5
<b>New Orders</b>	<b>57.3</b>	66.0	65.8	63.0	63.2	64.4
<b>Production</b>	<b>58.8</b>	64.4	64.8	62.7	63.1	61.7
<b>Inventories</b>	<b>45.5</b>	51.5	52.5	49.8	50.3	47.0
<b>Employment</b>	<b>56.8</b>	54.9	55.5	55.7	56.4	55.8
<b>Supplier Deliveries</b>	<b>59.3</b>	56.8	56.2	57.4	55.4	53.7
<b>Order Backlog (NSA)</b>	<b>52.5</b>	55.0	53.0	53.5	51.6	51.5
<b>Prices Paid (NSA)</b>	<b>38.5</b>	44.5	53.5	45.5	52.3	53.5
<b>New Export Orders</b>	<b>52.0</b>	55.0	51.5	52.8	53.3	55.0

Source: National Association of Purchasing Management

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.