

November ISM Manufacturing Index

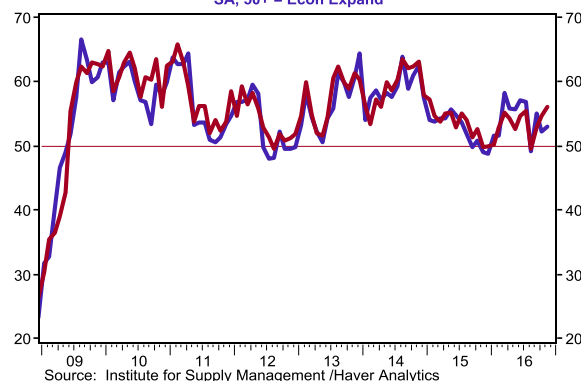
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Economist

- The ISM manufacturing index rose to 53.2 in November, beating the consensus expected level of 52.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in November, and all stand above 50, signaling growth. The supplier deliveries index rose to 55.7 from 52.2 in October, while the production index increased to 56.0 from 54.6. The new orders index moved higher to 53.0 from 52.1, while the employment index declined to 52.3 from 52.9 in October.
- The prices paid index was unchanged at 54.5 in November.

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



Implications: Manufacturing activity firmed for a third consecutive month in November, and matched the highest reading for the index in 2016. While not booming, the November reading continues the trend of improvement in the factory sector, which has lagged growth in the much larger service sector over recent years. Both the production and supplier delivery indices hit 2016 highs, while an uptick in the pace of new orders suggests the manufacturing sector should see continued growth in the months ahead. And given President-Elect Trump’s focus on the manufacturing sector, there is an added tailwind that should push the index higher in 2017. Employment was the only major indicator to soften in November (remember, the employment reading of 52.3 represents continued expansion in hiring, just at a slower pace than in October), but don’t expect this reading to affect the Fed’s outlook on the labor market. Manufacturing remains a small portion of total employment, and other signals of labor force strength (initial claims, earnings growth, and consumer spending) continue to show healthy improvement. On the inflation front, the prices paid index was unchanged at 54.5 in November, signaling a continued rise in prices at a modest pace. As a whole, today’s report shows the plow horse manufacturing sector picking up a bit as the year nears a close. In other news this morning, initial jobless claims rose 17,000 last week to 268,000. Continuing claims increased 38,000 to 2.08 million. Using these numbers, our models are projecting that tomorrow’s official jobs report will show a payroll increase of 188,000 for November (with upward revisions over the next couple of months). This morning’s report on construction showed spending increased 0.5% in October (+2.0% including revisions to September). New home building led the way, while public construction - boosted by schools and road paving - more than offset a decline in commercial construction (power plants and manufacturing facilities). Yesterday, the National Association of Realtors reported that pending home sales, which are contracts on existing homes, eked out a 0.1% gain in October. As a result, we’re forecasting that existing home sales will be roughly flat for November, although we still expect overall gains in both new and existing home sales over the next year.

Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Nov-16	Oct-16	Sep-16	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	53.2	51.9	51.5	52.2	52.0	48.4
New Orders	53.0	52.1	55.1	53.4	53.9	49.0
Production	56.0	54.6	52.8	54.5	53.9	49.8
Inventories	49.0	47.5	49.5	48.7	48.8	43.0
Employment	52.3	52.9	49.7	51.6	50.5	50.8
Supplier Deliveries	55.7	52.2	50.3	52.7	52.7	49.6
Order Backlog (NSA)	49.0	45.5	49.5	48.0	48.3	43.0
Prices Paid (NSA)	54.5	54.5	53.0	54.0	55.1	35.5
New Export Orders	52.0	52.5	52.0	52.2	52.5	47.5

Source: National Association of Purchasing Management