

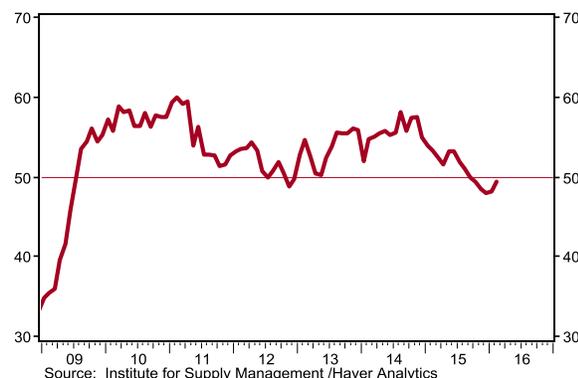
February ISM Manufacturing Index

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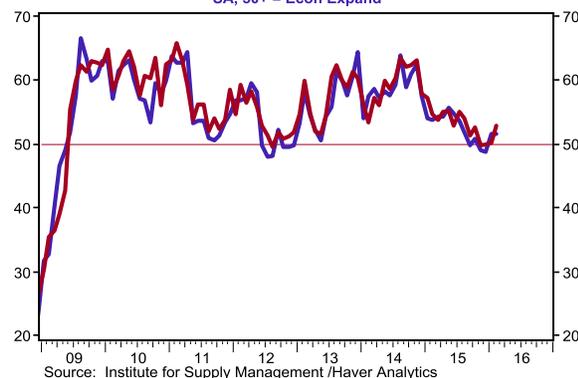
- The ISM manufacturing index rose to 49.5 in February, coming in above the consensus expected level of 48.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in February. The production index rose to 52.8 from 50.2 while the employment index moved higher to 48.5 from 45.9 in January. The new orders index was unchanged at 51.5, while the supplier deliveries index fell slightly to 49.7 from 50.0 in January.
- The prices paid index rose to 38.5 in February from 33.5.

Implications: While the headline index showed continued slight contraction in the factory sector, the details in today’s report point to growth in the months ahead. Manufacturing activity continued to decline in February, but at a slower pace than in recent months, while nearly every sub-index improved. The two most forward looking measures, new orders and production, continue to show expansion, suggesting a pickup in activity in the spring. And the improvements weren’t limited to a few select industries. Twelve industries reported growth in new orders, while just four reported declines. New orders lead to increased production, and as companies hire to fill new demand, manufacturing employment should move modestly higher as well. And when it comes to employment, it’s important to remember that manufacturing is just a small portion of the employment picture. In 2015, manufacturing added an average of 2,500 jobs a month, while the private sector as a whole grew by more than 210,000 jobs monthly. In other words, today’s report does little to change our outlook on Friday’s employment report, where we expect to see gains north of 200,000. The modest readings from the ISM manufacturing report since the recent peak at 58.1 in August 2014, have given some pessimists reason to cheer, but we see no broad-based evidence of a significant slowdown. Remember, the ISM is a survey which can reflect sentiment as much as actual economic activity. As a whole, today’s data shows manufacturing stabilizing, but continues to highlight a stark contrast between two broad sectors of the economy: services, where the economy is expanding briskly and prices are rising, versus goods, where both growth and inflation are soft to non-existent. Overall activity isn’t booming, but it does continue to plow forward at a modest pace. In other news this morning, construction increased 1.5% in January (2.2% including upward revisions for November/December), to the highest level since 2007. The gain in January was led by government projects (paving roads and building bridges) and private construction of manufacturing facilities, power plants, and hotels. In other recent news, pending home sales, which are contracts on existing homes, declined 2.5% in January, held back in part by blizzards in the Northeast. In turn, existing home sales, which are counted at closing, should be down slightly in February.

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 <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Feb-16	Jan-16	Dec-15	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	49.5	48.2	48.0	48.6	48.9	53.3
New Orders	51.5	51.5	48.8	50.6	50.2	53.8
Production	52.8	50.2	49.9	51.0	51.1	54.7
Inventories	45.0	43.5	43.5	44.0	45.0	52.5
Employment	48.5	45.9	48.0	47.5	48.5	52.0
Supplier Deliveries	49.7	50.0	49.8	49.8	49.8	53.7
Order Backlog (NSA)	48.5	43.0	41.0	44.2	43.3	51.5
Prices Paid (NSA)	38.5	33.5	33.5	35.2	36.3	35.0
New Export Orders	46.5	47.0	51.0	48.2	47.7	48.5

Source: National Association of Purchasing Management

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