

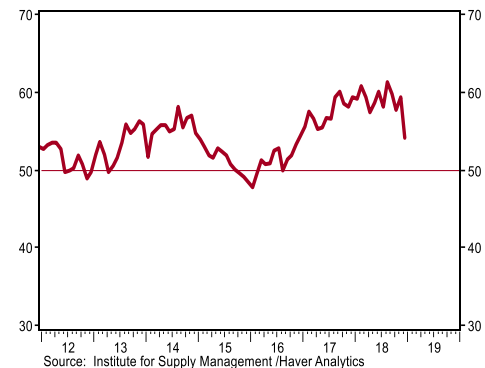
December ISM Manufacturing Index

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- The ISM Manufacturing Index fell to 54.1 in December, below the consensus expected 57.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were nearly all lower in December, but all stand above 50, signaling growth. The new orders index fell to 51.1 from 62.1 in November, while the employment index fell to 56.2 from 58.4. The production index declined to 54.3 from 60.6. The supplier deliveries index declined to 57.5 from 62.5 in November.
- The prices paid index fell to 54.9 in December from 60.7 in November.

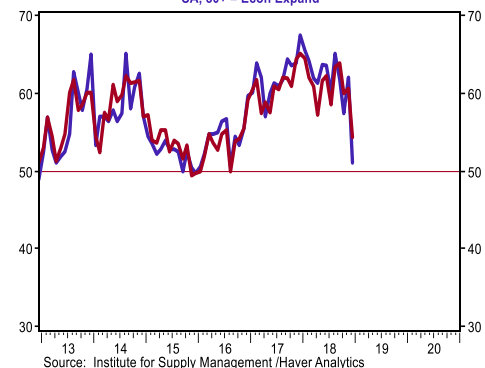
Implications: The ISM manufacturing index ended 2018 on a relatively soft note, falling to its lowest reading in two years, though remaining in expansion territory. Digging into the details shows eleven of eighteen industries reported expansion in December, while six reported contraction. The most worrisome data in today’s report came from the two most forward-looking indices – new orders and production – which posted the largest individual declines. The new orders index fell 11 points to 51.1, its largest monthly decline since 2014, as demand continued to expand but at a much slower pace. The production index fell 6.3 points to 54.3, its largest monthly decline since 2012. Survey respondents primarily cited uncertainty about future growth and tariffs for the pullback in the pace of activity. While some analysts may spin this as evidence that the manufacturing expansion has run its course, it’s important not to read too much into one month of data. The ISM index is a survey that can be swayed by the sentiment of supply executives, especially during market declines and negative media narratives which were both plentiful in December. The economy didn’t fall into recession in 2012 or 2014 and won’t this year, either. Looking at 2018 as a whole shows it was the best annual performance for the ISM manufacturing index since 2004. On the jobs front, the employment index fell slightly to 56.2 from 58.4 in November. However, this was paired with the ADP employment report this morning which showed an increase 271,000 jobs, easily beating the consensus of 180,000. Also out this morning, initial jobless claims rose 10,000 last week to 231,000. Meanwhile, continuing claims rose 32,000 to 1.74 million. These figures are still at very low levels and consistent with continued robust job gains in December. Putting all this together and looking towards tomorrow’s employment report, we are expecting that nonfarm payrolls grew by 180,000 in December, an acceleration from November’s pace of 155,000. A look at delivery times – as reflected in the supplier deliveries index – shows those, too, continue to rise but at a slower pace than in November. Some may view it as a negative, but the stresses in the manufacturing sector are coming from too much demand, not too little. It looks like some of these problems may be beginning to abate, with the order backlog index falling to 50, which signals neither expansion nor contraction. In short, these are good problems to have, and point to more investment, hiring, and production in the months ahead. Finally, in recent news on the housing market, both the Case-Shiller index and FHFA index show a deceleration in home price gains. The national Case-Shiller index was up 0.5% in October and is up 5.5% from a year ago, a smaller gain than the 6.1% increase in the year ending in October 2017. The FHFA index, which measures prices for homes that have a conforming mortgage, rose 0.3% in October and is up 5.7% from a year ago, a smaller gain than the 6.9% increase in the year ending in October 2017. In other housing news, pending home sales, which are contracts on existing homes, slipped 0.7% in November after dropping 2.6% in October. These results suggest a decline in existing home sales (counted at closing) for 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



Institute for Supply Management Index	Dec-18	Nov-18	Oct-18	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	54.1	59.3	57.7	57.0	58.4	59.3
New Orders	51.1	62.1	57.4	56.9	59.6	67.4
Production	54.3	60.6	59.9	58.3	60.1	65.2
Inventories	51.2	52.9	50.7	51.6	52.8	48.5
Employment	56.2	58.4	56.8	57.1	57.5	58.1
Supplier Deliveries	57.5	62.5	63.8	61.3	61.9	57.2
Order Backlog (NSA)	50.0	56.4	55.8	54.1	55.0	54.9
Prices Paid (NSA)	54.9	60.7	71.6	62.4	66.6	68.3
New Export Orders	52.8	52.2	52.2	52.4	54.0	57.6

Source: National Association of Purchasing Management