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December ISM Manufacturing Index

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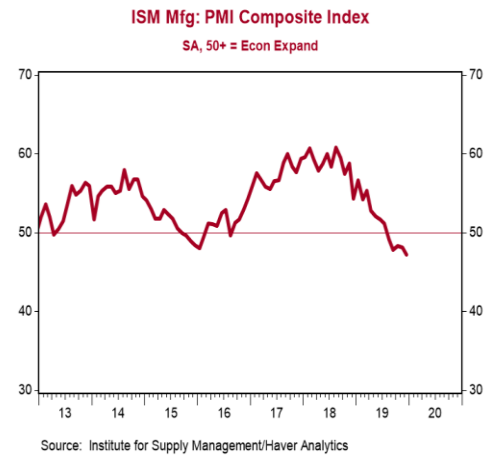
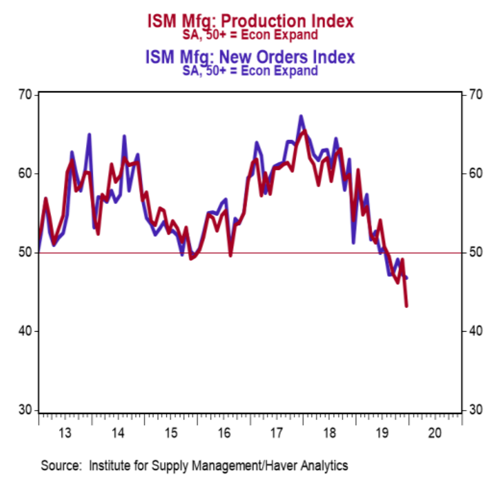
- The ISM Manufacturing Index declined to 47.2 in December, lagging the consensus expected 49.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were mostly lower in December. The production index fell to 43.2 from 49.1 in November, while the employment index declined to 45.1 from 46.6. The new orders index moved lower to 46.8 from 47.2. The supplier deliveries index rose to 54.6 from 52.0 in November.

- The prices paid index rose to 51.7 in December from 46.7 in November.





Implications: Manufacturing activity continued to slow as 2019 came to a close, according to the Institute for Supply Management (ISM) survey, hitting the lowest level since 2009. However, the ISM index is calculated through a survey of purchasing managers who are often swayed more by sentiment than actual activity, so we think it should be taken with a grain of salt. The index has dipped below 50 earlier in this recovery - without signaling recession - on three occasions in 2012, once again in 2013, and for five consecutive months in 2015/16. Each time, the economy kept growing. The two most forward-looking indices - new orders and production – both declined in December and remain below 50, signaling a slowdown in activity. The new orders index fell to 46.8 from 47.2 in November, while the production index dropped to 43.2 from 49.1. Despite the continued weakness, we expect a return to growth in the months ahead. Why? The ISM data doesn't match what we are seeing from other reports. The latest report on personal consumption shows goods consumption through November up at a 6.6% annualized rate, on-track to show the largest annual increase for the series in fifteen years! So, if consumers are clearly buying, and companies are apparently - according to today's report - not producing, something has got to give. In fact, today's report showed the customers' inventories index declined to 41.1. Customers' inventories have now been declining for 39 consecutive months, which is positive for future factory output. Given that we are also not seeing a pickup in layoffs – something you would expect to see if business significantly slowed - we lean towards the hard data over the survey output when it comes to judging the health of the economy. Speaking of workers, the employment index declined to 45.1 from 46.6 in November. While December employment isn't likely to replicate the 200,000+ reading from November (which, remember, was aided by GM workers returning from strike), we still expect to see healthy nonfarm payroll growth of around 154,000. Finally, on the inflation front, the prices paid index rose to 51.7 in December, pushed higher due primarily to metals (namely steel and aluminum). While the ISM manufacturing index has proved shaky over recent months, the preponderance of the data point to continued growth in the economy. In other news this morning, construction spending rose 0.6% in November (+2.6% including revisions to prior months), coming in above the consensus expected gain of 0.4%. A pickup in home building and public construction of highways and streets were partially offset by a slowdown in spending on manufacturing facilities. In recent employment news, initial jobless claims fell 2,000 last week to 222,000, while continuing claims rose 5,000 to 1.728 million. On the housing front, the Case-Shiller national home price index rose 0.5% in October and is up 3.3% from a year ago, while the FHFA index, which measures prices for homes financed with conforming mortgages, increased 0.2% in October and is up 5.0% over the past twelve months. Both indexes show slower price gains in the past twelve months than in the year ending in October 2018. Finally, pending home sales, which are contracts on existing homes, rose 1.2% in November after a 1.3% decline in October. We expect existing home sales (counted at closing) will rise modestly in the months ahead.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Dec-19	Nov-19	Oct-19	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Business Barometer	**47.2**	48.1	48.3	47.9	48.6	54.3
New Orders	**46.8**	47.2	49.1	47.7	48.1	51.3
Production	**43.2**	49.1	46.2	46.2	47.7	54.1
Inventories	**46.5**	45.5	48.9	47.0	47.9	51.2
Employment	**45.1**	46.6	47.7	46.5	47.5	56.0
Supplier Deliveries	**54.6**	52.0	49.5	52.0	52.0	59.0
Order Backlog *(NSA)*	**43.3**	43.0	44.1	43.5	44.2	50.0
Prices Paid *(NSA)*	**51.7**	46.7	45.5	48.0	47.5	54.9
New Export Orders	**47.3**	47.9	50.4	48.5	46.3	52.8

Source: National Association of Purchasing Management