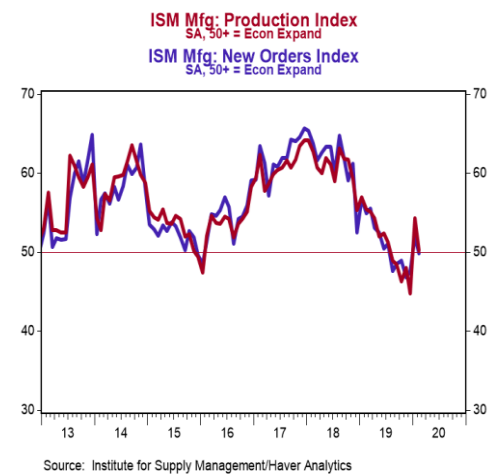
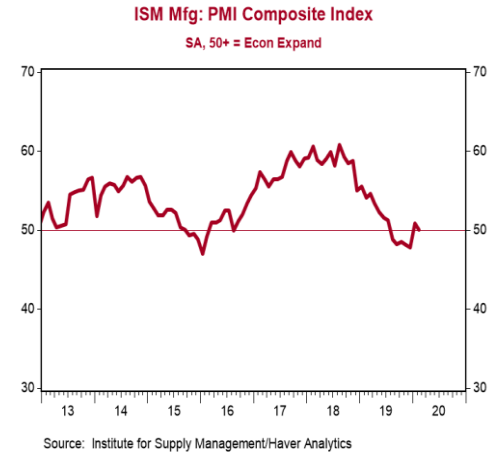


February ISM Manufacturing Index

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- The ISM Manufacturing Index declined to 50.1 in February, coming in below the consensus expected 50.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in February. The production index fell to 50.3 from 54.3 in January, while the new orders index declined to 49.8 from 52.0. The supplier deliveries index rose to 57.3 from 52.9, and the employment index increased to 46.9 from 46.6 in January.
- The prices paid index declined to 45.9 in February from 53.3 in January.

Implications: The pace of growth in the manufacturing sector slowed in February, but grow it still did. Comments from survey respondents were peppered with concerns over the coronavirus, particularly in terms of the impact it may have on supply chains. That said, the general outlook across sectors remains positive, with fourteen of eighteen industries reporting growth in February, while three reported contraction and one reported no change. The two most forward-looking indices - new orders and production – both moved lower in February, with new orders falling back below 50, signaling contraction. Oddly, while the new orders index moved below 50, sixteen of eighteen industries reported growth in orders, with just the petroleum & coal products and transportation industries showing declines. The production index declined to 50.3 in February from 54.3 in January as supply-chain disruptions emerged. As supply chain issues continue to arise, companies are in “a mad dash to dual source stateside in case China isn’t back online soon.” The good news is that Chinese factories were estimated by Bloomberg to be running at 60%-70% of capacity as of two weeks ago and are expected to be running at around 90% of capacity by the end of March. Supply chain disruptions also impacted the supplier deliveries index, which rose to 57.3 in February from 52.9 (remember, the supplier delivery index moves higher as delivery delays rise, signaling more demand than supply). Customers’ inventories, meanwhile, have now been declining for 41 consecutive months, which is a positive for future factory output (and future GDP). Note that the ISM data have been consistently running below what we are seeing from other reports. Personal income and spending data continue to show strength, regional Fed surveys on manufacturing have been on the rise, and companies continue to hire – something you wouldn’t expect to see if companies believed that a prolonged slowdown was starting. Speaking of workers, the employment index rose to 46.9 from 46.6 in January. We are forecasting that manufacturing payrolls declined by 3,000 in February, but that nonfarm payrolls as a whole rose a healthy 180,000, although these may change as we get ADP and claims data later this week. Finally, on the inflation front, the prices paid index plummeted 7.4 points to 45.9 in February, due primarily to energy products and metals. Uncertainty remains related to the coronavirus and its impact on the economy, but we suggest keeping your eyes (and minds) on the data. Narratives breed on fear – on worst-case scenarios – and while they capture the public’s imagination, the lasting impact so often falls flat. In other news this morning, construction spending rose 1.8% in January (up 3.1% including revisions to prior months), coming in well above the consensus expected gain of 0.6%. A rise in home building paired with a pickup in construction on highways and streets were partially offset by a slowdown in lodging (think hotel) projects. Given the upward revisions to prior months, it now looks like real GDP grew faster in Q4 than the 2.1% annual rate the government reported last week.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Feb-20	Jan-20	Dec-19	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	50.1	50.9	47.8	49.6	48.9	54.1
New Orders	49.8	52.0	47.6	49.8	48.9	54.9
Production	50.3	54.3	44.8	49.8	48.7	55.4
Inventories	46.5	48.8	49.2	48.2	47.9	51.6
Employment	46.9	46.6	45.2	46.2	46.7	53.2
Supplier Deliveries	57.3	52.9	52.2	54.1	52.6	55.3
Order Backlog (NSA)	50.3	45.7	43.3	46.4	45.3	52.3
Prices Paid (NSA)	45.9	53.3	51.7	50.3	48.8	49.4
New Export Orders	51.2	53.3	47.3	50.6	48.5	52.8

Source: National Association of Purchasing Management