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January 5, 2021 • 630.517.7756 • www.ftportfolios.com

December ISM Manufacturing Index

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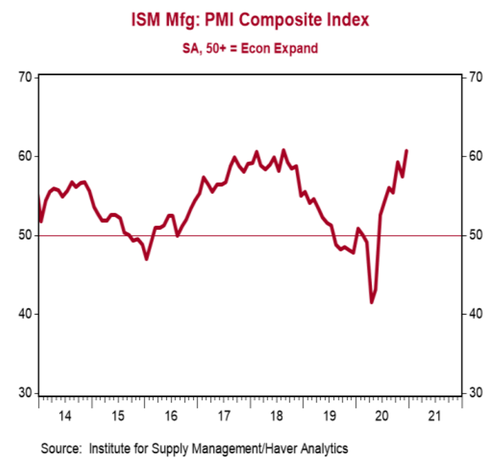
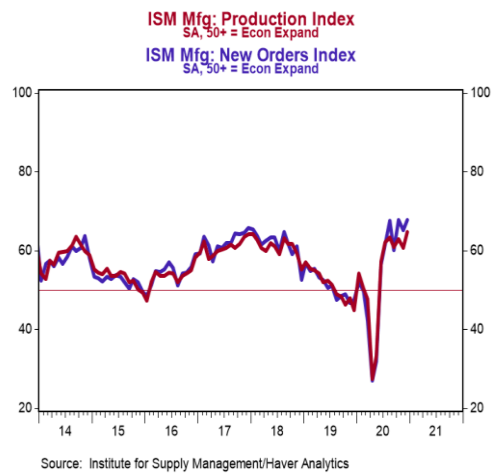
- The ISM Manufacturing Index rose to 60.7 in December, easily beating the consensus expected decline to 56.8. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were all higher in December, and all stand above 50, signaling growth. The supplier deliveries index jumped to 67.6 from 61.7 in November, while the production index rose to 64.8 from 60.8. The new orders index increased to 67.9 from 65.1 and the employment index moved higher to 51.5 from 48.4 in November.

- The prices paid index surged to 77.6 in December from 65.4 in November.





Implications: The manufacturing sector surprised to the upside to finish 2020, with every major sub-index rising in December. Following a tumultuous period from March to May as lockdowns and COVID-19 uncertainty put much of the business world on hold, manufacturing expanded solidly through the remainder of the year and capped things off with a 60.7 reading in December, which marks the highest headline reading for the index since late 2018. And importantly, the pickup in activity remains broad-based, with sixteen of eighteen industries reporting expansion, while only two – printing & related support activities, and nonmetallic mineral products – reported contraction. A look through the respondent comments shows that growth was held back from even stronger expansion by continued headwinds on the supply side. Labor shortages continue to be a resounding theme, and are causing delays further down the line with supplier deliveries. So while companies report that sales are now above pre-COVID-19 levels, and "business is stronger than expected," the inability of supply to meet demand (note the supplier deliveries index jumping to 67.6 in December from an already elevated 61.7 in November) is causing price pressures to build. Case in point, the prices paid index surged to 77.6 from 65.4 in November, as all eighteen industries reported increased prices for raw materials. In total, thirty-five commodities (particularly metals like aluminum and steel) were reported up in price, while not a single commodity was reported lower. Inflation looks likely to be a key topic in 2021, with the M2 money supply up an incredible 25.1% over the last twelve months, at the same time supply chains struggle to catch up to demand. Speaking of demand, the two most forward-looking indices – new orders and production – both moved further into expansion territory with readings in the 60s, representing a robust pace of growth. And given that the customers' inventories index remains near the lowest reading in more than a decade at 37.9 in December, while at the same time the backlog of orders index (which show orders rising faster than production can fill them) hit a multi-year high at 59.1, the data suggest activity should remain robust for the foreseeable future. Employment, meanwhile, moved back into expansion territory in November. That said, other measures of the jobs market provide a better guide of what we should expect from this Friday's employment report. While it may change with data out over the coming days, we are projecting that Friday's report on manufacturing payrolls will show a gain of around 10,000 jobs in December, with total nonfarm payrolls growing by 82,000. In other recent news, construction spending increased 0.9% in November, very close to consensus expectations, with the gain almost entirely due to single-family home building. Good thing they're building more homes, because home prices are heading up fast. The national Case-Shiller index increased 1.7% in October, the largest gain for any month on record, going back to 1975. Prices are now up 8.4% from a year ago, a major acceleration from the 3.2% gain in the year ending in October 2019. The gains in the past year have been led by Phoenix, Seattle, and San Diego. The smallest gains have been in New York and Chicago. Meanwhile, pending home sales, which are contracts on existing homes, declined 2.6% in November after a 0.9% dip in October. These declines suggest a drop in existing home sales (counted at closing) for December from recent very high levels. On the jobs front, initial claims for unemployment insurance dropped 19,000 the week ending December 26, while continuing claims fell 103,000. Good news, but other data suggest (temporarily) slower growth in net job creation in December.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Dec-20	Nov-20	Oct-20	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Business Barometer	**60.7**	57.5	59.3	59.2	57.2	47.8
New Orders	**67.9**	65.1	67.9	67.0	65.0	47.6
Production	**64.8**	60.8	63.0	62.9	62.5	44.8
Inventories	**51.6**	51.2	51.9	51.6	48.9	49.2
Employment	**51.5**	48.4	53.2	51.0	48.9	45.2
Supplier Deliveries	**67.6**	61.7	60.5	63.3	60.5	52.2
Order Backlog *(NSA)*	**59.1**	56.9	55.7	57.2	55.6	43.3
Prices Paid *(NSA)*	**77.6**	65.4	65.5	69.5	64.0	51.7
New Export Orders	**57.5**	57.8	55.7	57.0	54.8	47.3

Source: National Association of Purchasing Management