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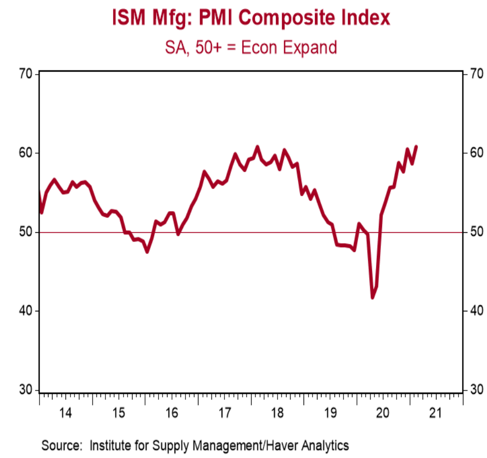
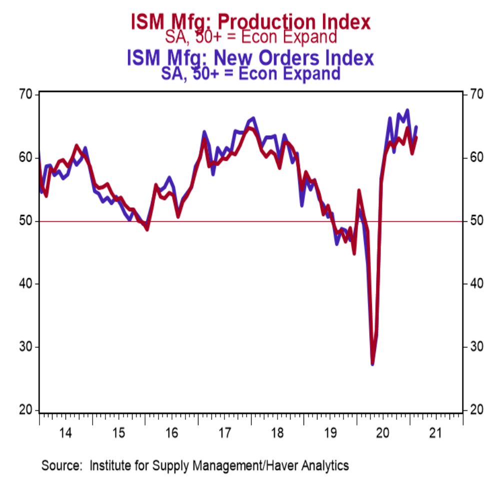
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist
Andrew Opdyke – Senior Economist

February ISM Manufacturing Index

- The ISM Manufacturing Index rose to 60.8 in February, easily beating the consensus expected 58.9. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all higher in February, and all stand above 50, signaling growth. The new orders index rose to 64.8 from 61.1 in January, while the production index increased to 63.2 from 60.7. The supplier deliveries index moved higher to 72.0 from 68.2, and the employment index increased to 54.4 from 52.6 in January.
- The prices paid index surged to 86.0 in February from 82.1 in January.





Implications: The manufacturing sector was firing on all cylinders in February, rising to a reading of 60.8 that ties the highest mark for the ISM index since 2004. All the major measures of activity moved higher in February, and growth was broad-based across industries, with sixteen of eighteen reporting growth (printing & related support activities and petroleum & coal products reported contraction). Following a tumultuous period from March to May as lockdowns and COVID-19 uncertainty put much of the business world on hold, manufacturing expansion has been rising steadily since. Respondent comments remain overwhelmingly upbeat, with five positive comments for every cautious comment. That said, responses are reflecting an increasingly tight supply chain, with notes such as, "Supply chains are depleted; inventories up and down the supply chain are empty." "Overall capacities are full across our industry." And "we are overloaded with orders and do not have the personnel to get product out the door on schedule." Combined, these headwinds are causing delays in supplier deliveries (note the supplier deliveries index rising to 72.0 in February from an already elevated 68.2 in January), with sixteen of eighteen industries reporting longer delivery times. While companies report that demand is healthy, the inability of supply to meet that demand is causing price pressures to build. Case in point, the prices paid index surged to 86.0 in February, the highest reading in more than a decade, as all eighteen industries reported increased prices for raw materials. In total, forty-eight commodities (particularly metals like steel) were reported up in price, while just one – dairy - was reported lower. Inflation looks likely to be a key topic in 2021, with the M2 money supply up an incredible 26.3% over the last twelve months, at the same time supply chains struggle to catch up to demand (for more on the inflation discussion, check out this week's Monday Morning Outlook). Speaking of demand, the two most forward-looking indices – new orders and production – moved even further into the 60s in February, signaling very healthy expansion. And given that the customers' inventories index stands at the lowest reading on record, while at the same time the backlog of orders index (which show orders rising faster than production can fill them) hit the highest reading in more than fifteen years, the data suggest activity should remain robust for the foreseeable future. The employment index also moved higher in February, as companies cite the above-mentioned new order strength and expanding backlogs as reasons to increase payrolls. While the ISM index on employment is informative, we put more weight on other measures of the jobs market to provide a 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 payrolls will show manufacturing jobs flat, while total nonfarm payrolls grow by around 140,000. All-in-all, we expect 2021 to be a year of continued growth in the manufacturing sector, as we get back toward "normal." In other news this morning, construction spending increased 1.7% in January (+2.1% including revisions to prior months), easily beating the consensus expected +0.8%. Nearly all categories of construction increased, but gains were led by the continued surge in single-family home building – much needed, just take a look at home prices – which was partially offset by a decline in commercial construction.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Feb-21	Jan-21	Dec-20	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Business Barometer	**60.8**	58.7	60.5	60.0	58.7	50.3
New Orders	**64.8**	61.1	67.5	64.5	64.5	49.5
Production	**63.2**	60.7	64.7	62.9	62.6	50.9
Inventories	**49.7**	50.8	51.0	50.5	50.3	46.7
Employment	**54.4**	52.6	51.7	52.9	51.4	46.9
Supplier Deliveries	**72.0**	68.2	67.7	69.3	64.9	57.3
Order Backlog *(NSA)*	**64.0**	59.7	59.1	60.9	58.4	50.3
Prices Paid *(NSA)*	**86.0**	82.1	77.6	81.9	73.2	45.9
New Export Orders	**57.2**	54.9	57.5	56.5	56.2	51.2

Source: National Association of Purchasing Management