ECONOMIC UPDATE
REGIONS
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December ISM Manufacturing Index: 2017 A Very Good Year For Factory Sector

- The ISM Manufacturing Index rose to 59.7 percent in December from 58.2 percent in November
- The new orders component rose to 69.4 percent, the employment component fell to 57..0 percent, and new export orders rose.

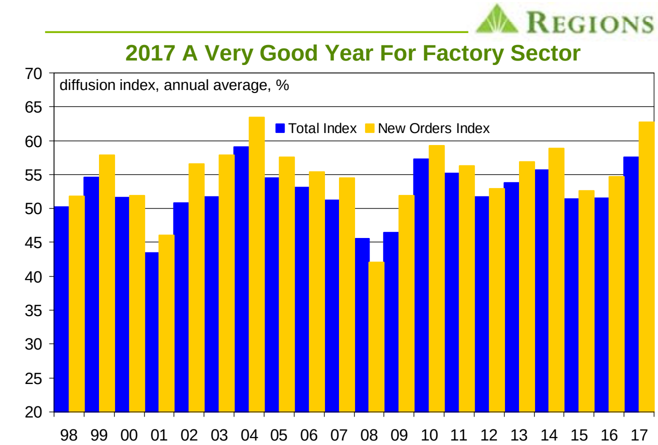
The ISM Manufacturing Index rose to 59.7 percent in December, easily topping expectations and capping what proved to be a very good year for the factory sector. The forward looking details in the ISM data suggest those good times will carry over into 2018, with the index for new orders jumping to 69.4 percent, the highest since December 2003. As of December, the headline index has been above the 50.0 percent break between contraction and expansion in the factory sector for 16 consecutive months. For 2017 as a whole, both the headline index and the index for new orders posted their highest annual averages since 2004, and what has been a long run of steady growth in new export orders is consistent with firming global economic growth. As we head into 2018, the challenges facing most of the manufacturing sector include how to fill steadily growing order books and how to unclog backed up supply channels. In other words, the kinds of challenges firms want to be facing.

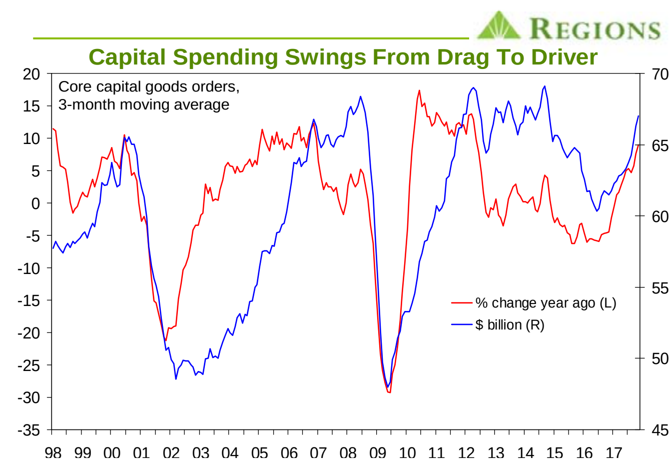
Of the 18 industry groups included in the ISM survey, 16 reported expansion in December with only two – wood products and textile mills – logging declines in activity. Comments from survey respondents were mostly upbeat, with a consistent theme being strength of demand, both domestic and foreign. One respondent from the food, beverage, and tobacco products industry group did note that while business is strong at present, there are persistent signals of headwinds in 2018. Still, on the whole, the comments point to continued steady growth in the manufacturing sector in 2018.

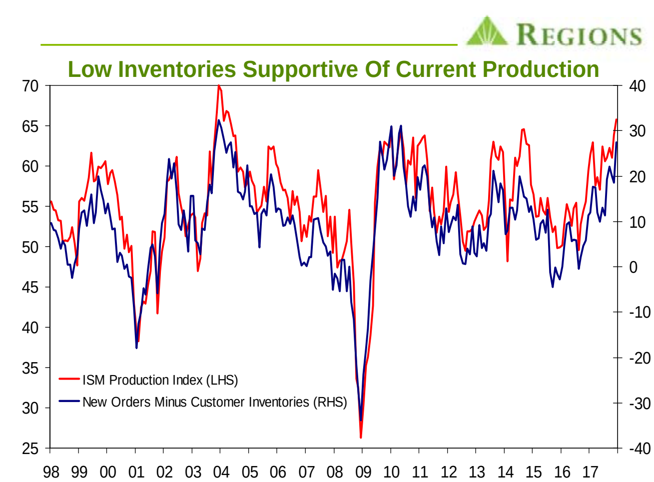
As noted above, the index for new orders jumped to 69.4 percent in December. Of the 18 industry groups reporting, 15 reported higher order volumes with only the wood products industry reporting a dip in order volumes. While we have not been surprised by the persistent growth in new orders, we have been surprised by the strength of that growth – December marks the seventh consecutive month in which the new orders index has been above 60 percent. In line with steady growth in new orders, the index of current production has also been strong, and rose to 65.8 percent in December, the highest since May 2010 when the economy, led by manufacturing, was still in the early phases of emerging from the 2007-09 recession. Thirteen of the 18 industry groups reported higher output levels in December, with only the nonmetallic metals products industry group reporting a lower level of output. It follows that employment in the factory sector also continues to rise, with December marking the 15th straight month in which the employment index topped the 50 percent mark. This is in line with the monthly employment reports showing steady growth in manufacturing payrolls.

Other components of the ISM data indicate further tightening in the manufacturing sector. For instance, the backlog of unfilled orders rose to 56.0 percent in December, and order backlogs have now expanded in eleven consecutive months. At the same time, supplier delivery times slowed further in December – there had been a material slowing in delivery times in the wake of Hurricanes Harvey and Irma that most thought would reverse as activity got back to normal, but instead elevated activity levels have brought on a more general, and lasting, slowdown in delivery times. And, as would be expected given steadily rising levels of demand, price pressures for raw materials used in manufacturing have built steadily, with the prices paid index rising to 69.0 percent in December, with 17 of the 18 industry groups reporting having to pay higher prices. Finally, survey respondents continue to assess customer inventories as being too low, suggesting production cannot keep pace with growth in demand.

The U.S. manufacturing sector remains in the midst of a steady and broad based expansion. The details of the ISM survey point to further growth in production and employment as well as stepped up investment. While a slowdown in motor vehicle sales and U.S. trade policy pose downside risks, the broad based expansion is likely to endure over coming quarters.







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