TD Economics

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Data Release: U.S. manufacturing takes a breather at year end, but 2015 still looking robust

- The Institute for Supply Management (ISM) manufacturing index fell 3.2 points to 55.5 in December. The reading was two points below the expected figure and its lowest level in six months.
- Most sub-components experienced sharp drops, with new orders (-8.7), inventories (-6.0), and production (-5.6) leading the declines. Prices paid plummeted by 6.0 points while new export orders fell 3.0 points during the month.
- Employment (+1.9) and supplier deliveries (+2.5) were the only two sub-components to increase in December.
- With new orders falling by more than inventories, the spread between the two – which tends to lead the headline index by about three months – pulled back, but remains at a still elevated 12.
- Some of the declines could have been exacerbated by dock slowdowns across West Coast ports during the month.

Key Implications

- Despite the sharp pullback in the headline and across many sub-components, the key measures remain in the high-50s, or well in expansionary territory. At the same time, while less upbeat than during the previous month, the new order to inventory spread suggests that manufacturing activity should continue to be supported in the coming months. This notion is further corroborated by the willingness of manufacturers to hire at an accelerating pace.
- The sharp pullback in the prices paid component is not surprising given the slumping commodity complex. Crude oil has fallen by nearly 50% in the past six months, registering a 21% drop alone in December. While the decline could result in a slowdown for manufacturers who are exposed to drilling activity, where investment is likely to slow, most respondents indicated a net benefit of lower energy costs.
- The decline in the export index is also not a surprise and underscores an environment of weaker global demand. Global PMIs continue to disappoint with the Chinese measure flat at 50.1. European figures are not much better, with the combined Eurozone metric at 50.6 in December – with the second and third largest economies (France and Italy) continuing to contract despite the precipitously falling euro.
- Bottom line is that the near 60 print in the headline index was unlikely to be sustained given the slumping prices and weak global demand. Nonetheless, U.S. manufacturing activity remains a global outperformer and should continue this streak for the foreseeable future buoyed by an improving domestic economic momentum.

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