

U.S. Flash

Manufacturing Activity Rebounds Modestly in December

- The ISM manufacturing index rose from 49.5 in November to 50.7 in December
- New orders held steady at 50.3 while production decelerated slightly
- The employment index jumped above the 50 level to 52.7 on a stronger hiring outlook

Just a few tenths above economists' estimates, the ISM manufacturing index for December crossed into expansionary territory to 50.7 on a more optimistic outlook and an increase in key subcategories. After a dismal figure of 49.5 in November, the lowest level in nearly three years, the ISM index quickly recovered as firms, despite the fiscal cliff hazard, continue to produce on strengthening demand. The new orders index remained unchanged at 50.3 in December, indicating slower demand than in September and October but still increasing nonetheless. Production remained healthy above the 50-mark for the third consecutive month but may continue to decelerate in the coming months if we do not see a larger jump back up in new orders. Furthermore, inventories continued to contract but at a quicker pace in December, a signal that products are being scooped up and that future production will need to increase in order to replace inventories. To further bolster the positive sentiment, the employment index saw significant gains as hiring, despite the aforementioned fiscal uncertainty, rose to 52.7 from an extremely weak 48.4 in November.

The U.S. may also be poised to benefit from a recovering global economy as exports showed some signs of growth despite the disappointing figures thus far. Evidence for the optimism lies in the export subcategory in the ISM report that rose to 51.5, a strong gain of 4.5 after holding steady in contractionary territory for half of 2012. Firms across the world are looking to the U.S. as the weak dollar continues to benefit foreigners looking for cheaper materials while producers are recovering. The import index also rose above the break line to 51.5 from 48.0 turning around the four months of consecutive decline and indicating a stronger sense of domestic demand.

December's results are cause for some optimism although, with the knowledge that the fiscal cliff calamity has been only partially abated, it stands to reason that uncertainty still looms with further action required in February from lawmakers. However, despite the politics, the ISM report did show expansion in key areas: employment, production, exports and imports. As we enter into the new year and a new quarter, we are likely to see growth in manufacturing along with positive effects throughout the economy and even into global markets.

Chart 1
ISM Manufacturing Index, New Orders, & Employment
SA, 50+ = Economic Expansion



Source: Institute for Supply Management & BBVA Research

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