

U.S. Flash

Manufacturing Activity Gains as New Orders and Production Rise

- **The ISM Manufacturing Index rose to 54.2 in February on widespread improvements**
- **New orders and production surged well above levels seen throughout 2H12**
- **Employment dropped slightly as fewer respondents saw an increase in hiring**

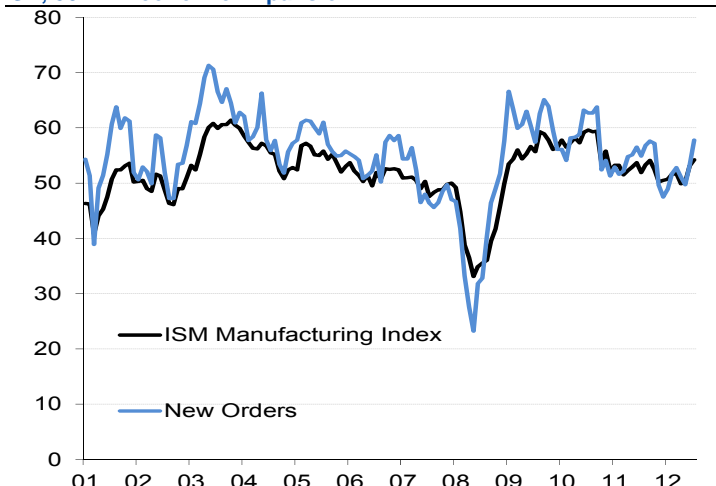
The ISM Manufacturing Index increased for the third consecutive month to 54.2 in February, with improvements in most underlying components despite fiscal negotiations that hindered some production and global demand towards the end of 2012. Continuing the upward trend from December, both production and new orders accelerated by a significant amount. New orders, after ticking back below 50 in December, recovered to 53.3 in January and then increased dramatically by 4.5 points to 57.8 in February on much higher demand for manufactured goods. Coupled with that was the concurrent surge in production to 57.6 which had the largest monthly gain since 2010 but combats the PMI manufacturing index that actually declined for February. The backlog of orders figure also points to growth in manufacturing activity as it moves above the 50 level to 55.0 after contracting for most of 2012. This overall healthy snapshot of the manufacturing sector is continuing its gains on a growing housing market and tempered fears of economic slowdown as the U.S. economy, even with Washington's ongoing fiscal negotiations, continues to show signs of sustained recovery.

In terms of the global economy, China's slowdown and Europe's weaker growth seem to have done little in February to hinder demand for U.S. manufactured goods. The new export orders index in the ISM report shows accelerated demand from abroad. Gaining 3 points to 53.5, February export orders show signs of continued global demand coupled with expanding manufacturing activity for domestic consumers. Imports for manufacturing also continued to grow, rising 4 points in February after falling the month prior.

Overall, a better-than-expected performance from the manufacturing sector in February coupled with increasing global, at least for the time being, is positive news for the market. We expect growth to continue albeit remaining slightly volatile as government shifts in spending cause demand from the public sector to wane.

Chart 1

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



Source: Institute for Supply Management & BBVA Research

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