

U.S. Flash

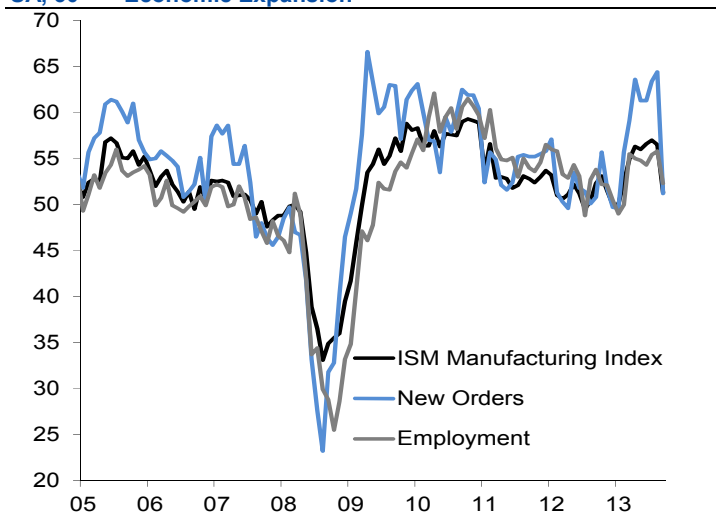
ISM Manufacturing Falls as Production and New Orders Drop

- **The ISM Manufacturing Index fell to 51.3 in January from a healthy 56.5 in December**
- **New orders and production plummeted to the lowest levels since May, only slightly +50**
- **Manufacturing activity expected to pick up speed again as 1Q14 gets underway**

The ISM Manufacturing Index posted a significant loss in January, surprising much more to the downside than was expected. Dipping from a strong 56.5 in December to a modest 51.3 in January, it appears that growth in the U.S. manufacturing sector has nearly stalled after the positive surge throughout most of 2H13. The drop in the index marks the biggest monthly decline in five years, as almost all components of the index decreased. New orders fell by its largest monthly decline since 2008 to 51.2 after remaining above 60 for five consecutive months. Similarly, after floating above 60 for six straight months, the production index also experienced a significant drop to 54.8 in January, the largest MoM decline since November 2010. The drop in production and new orders will certainly drive speculation that the boost in manufacturing during 2H13 was unsustainable and was due for a slowdown. Furthermore, the employment component also fell slightly in January to 52.3 from 55.8 in December, signaling a deceleration in hiring and possibly foreshadowing the highly-anticipated job's report on Friday. As for the remaining components, supplier deliveries accelerated slightly while inventories declined to 44.0, the lowest reading since December 2012.

Overall, the January report for the ISM Manufacturing survey is concerning for those watching the sector as a primary driver for growth in 2014. On the bright side, all components other than inventories remain above the 50.0 threshold, a signal that components are still expanding and have solely decelerated from end-of-year highs. For this reason, we do not believe that the month's data should be cause for widespread panic just yet. We continue to forecast a strong manufacturing sector and expect the industry to continue to provide support for economic growth in 2014.

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



Source: Institute for Supply Management & BBVA Research

Michael Soni
Michael.soni@bbvacompass.com
+1 713 831 7348

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