

Strong US ISM underlines case for 3% growth this year

Another huge ISM reading shows the manufacturing sector is in great shape and will make a major positive contribution to economic growth this year



Source: Shutterstock

The US ISM manufacturing index for December has come in at 59.7, well ahead of the 58.2 figure for November, which was also the consensus expectation for this month. The index is well above the so-called “break-even level” of 50 and is even further above the 43.3 level, which the ISM suggests is indicative of economic expansion. In fact, if you chart it against GDP we are at levels, historically consistent with GDP growth of around 6%.

Given the strong growth story and the likelihood that inflation will continue creeping higher, we continue to look for three Fed hikes in 2018

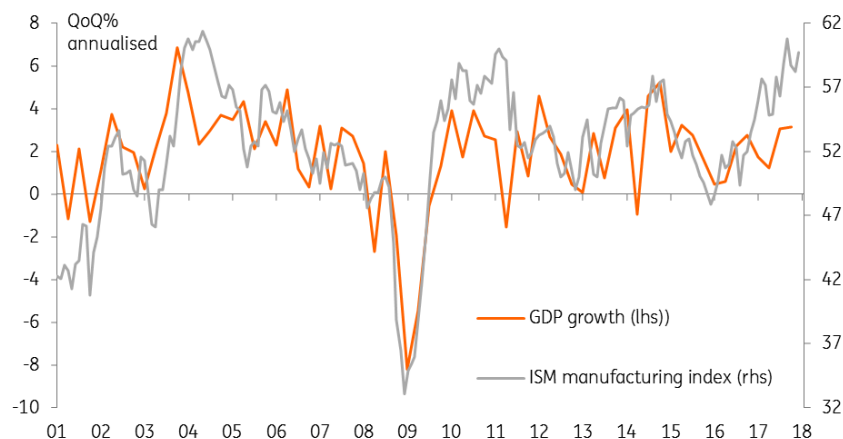
While 6% GDP growth looks far-fetched, the report underlines how positive the sector is right now and supports President Trump’s assertion that the US will get at least 3% growth in 2018. Order

books are strong, consumer demand is robust and confidence is high and this is reflected within the details that show production has only been stronger once in the past 14 years while new orders are at their highest level since the beginning of 2004. It's possible that some of the excitement regarding tax cuts is giving an additional upside impetus to the survey, but either way, the sector is in great shape.

The report offered more indication that pipeline inflation pressures are building with the prices paid component at 69.0. The one area of disappointment was in employment, which dropped to 57.0 from 59.7. Nonetheless, this is still in strong growth territory and bodes well for another healthy jobs report on Friday.

Given the strong growth story and the likelihood that inflation will continue creeping higher, we continue to look for three Federal Reserve interest rate hikes in 2018.

US ISM and GDP



Source: Macrobond

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