HIGHLIGHTS

• The manufacturing ISM index rose in January from 50.2 to 53.1, its best reading since April 2012.
• Most of the 10 sub-indexes advanced, with the strongest increases recorded in inventories, new orders and employment.
• Prices rose 1.0 points from 55.5 to 56.5.
• Only exports, backlog of orders and supplier deliveries were down.

COMMENTS

It is encouraging to see the manufacturing ISM finally move well away from 50, marking the difference between manufacturing growth and contraction. At 53.1, the index is no longer turning in the weak readings that were so common since last spring.

The good performance by most of the sub-indexes is also quite encouraging. It will be recalled that the one of the main reasons for the 0.1% decrease in real GDP at the end of 2012 was the weak change in business inventories. The 8.0-point increase in the ISM’s manufacturing inventories component suggests a certain rebound in early 2013. The 2.1-point increase in the employment component is also welcome following anaemic hiring in the manufacturing industry since last summer.

The new orders index, which was below 50 for four months in 2012, saw its biggest monthly increase since January 2011. However, it is still too weak to justify the stunning 12.5% gain in business equipment and software investments in Q4 2012. Therefore, slower growth for this GDP component can be expected as of Q1 2013. The new decrease in the ISM’s exports component is a step in the wrong direction, as real exports already fell 5.7% in fall 2012.

Implications: The increase in the manufacturing ISM is encouraging and leads us to believe that the U.S. economy will quickly resume its growth after stalling at the end of 2012. It remains to be seen whether the non-manufacturing ISM reading, due out next Tuesday, will also remain strong.