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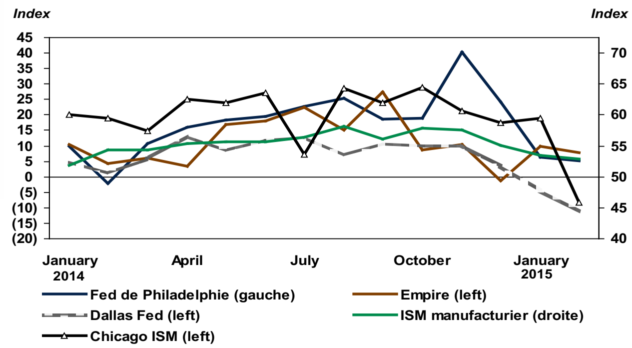
UNITED STATES

Manufacturing ISM dips less than expected

HIGHLIGHTS

- The ISM manufacturing index fell in February, going from 53.5 to 52.9. Five of the ten components contracted. The main declines come from current production (-2.8 points) and employment (-2.7 points). New orders retreated 0.4 points. The backlog of orders (+5.5 points), customer inventories (+4.0 points) and manufacturer inventories (+1.5 points) are among the components that posted increases. The prices paid component was flat at 35.0.
- Real consumption ticked up 0.3% in January. The consumption of goods showed relatively modest growth, with both durable and non-durable goods up by 0.2%. Consumption of services jumped, rising 0.4% on the demand for heating. Real disposable income increased 0.9%.

The manufacturing ISM pulls back less than some regional indexes had suggested



Sources: Institute for Supply Management, Philadelphia Federal Reserve, New York Federal Reserve, Dallas Federal Reserve, ISM-Chicago and Desjardins, Economic Studies

COMMENTS

The manufacturing ISM has been trending down from its last peak at 58.1 in August 2014, losing 5.2 points in all. This suggests slightly slower economic growth.

However, it did not drop as much as could have been feared from watching several regional manufacturing indicators erode in the last few weeks. In particular, both the Chicago ISM and Dallas Fed indexes fell to levels suggesting a contraction in manufacturing. Numerous factors may be responsible for manufacturers' current difficulties, like the drop in investment in the oil sector and the harsh weather. However, they seem to have been more affected by the labour dispute at U.S. West Coast ports, which lasted until the end of February. As this issue is now resolved, we can expect manufacturing sentiment to improve in the next few months. The weakness in the employment and new orders components of the manufacturing ISM points to slightly weaker hiring in February and March, as well as further short-term disappointment from business investment in equipment.

As for consumption, the 0.3% rise in real consumption will provide solid support to quarterly growth, offsetting December's 0.1% decline. The support is based on the greater heating demand triggered by the unusually cold weather. However, the solid advance in real income, stemming from the drop in gas prices and the job market's strong performance, will help consumer spending accelerate. For now, households are saving much of the increased income, taking the savings rate from 5.0% to 5.5%.

Implications: After dropping for several months, the ISM no longer points to very fast economic growth. However, the factors that have curbed it in recent months are temporary and optimism should return shortly, particularly as demand from consumption will remain strong, supported by solid income growth. The ISM's weakness should still prompt Federal Reserve leaders to be cautious and therefore "patient" for a few more months.

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Note to readers: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.