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TD Economics

Data Release: U.S. manufacturing activity expands at fastest pace in two years

- The Institute for Supply Management (ISM) manufacturing index rose 1.5 points to 54.7 in December. The reading was above consensus expectations for a much less pronounced uptick to 53.6.

- The majority of subcomponents rose in December, with new orders rising to 60.2 (+7.2) – the highest level since November 2014. Moreover, production rose to 60.3 (+4.3), and employment hit 53.1 (+0.8). Only supplier deliveries and inventories contracted in December – both categories reversing gains from the previous month.

- The sub-component for prices paid rose to 65.5, up 11 points from November and is at the highest level since June 2011. The top three categories for driving raw material prices in December were: fabricated metal products, primary metals, and electrical equipment, appliances and component manufacturers.

- The spread between new orders and inventories – a leading indicator of activity – surged higher this month to 13.2, suggesting a continuation of growing demand if momentum is maintained.

- Eleven of the eighteen industries reported growth in December, with petroleum and coal products, primary metals, and miscellaneous manufacturing the top three categories driving growth in the month.

Key Implications

- Today's report suggests that the U.S. manufacturing sector saw a surge in demand at the end of 2016. This is quite the opposite to the contraction in the sector recorded at the end of 2015. Continued growth in almost all subsectors in December suggests that manufacturers are on pace to record a much better performance in the first quarter of this year than last.

- This was an overwhelmingly positive report, but the manufacturing sector will continue to face a number of headwinds that could dampen growth in 2017. Most importantly, U.S. dollar strength will make American manufactured goods more expensive in foreign markets, which could lead to a pullback in new export orders.

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