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## TD Economics

### Data Release: Economy enters 2017 on a positive note

- The Institute for Supply Management's (ISM) non-manufacturing index remained unchanged in December at 57.2. The headline print surprised to the upside, with markets calling for a slight downtick to 56.8. Alongside the improvement in the manufacturing index, the ISM composite rose to 56.9 – its highest level in more than a year.
- New orders were among the sub-components that saw the greatest improvement, rising by 4.6 points to 61.6 – an eight month high. Prices paid (+0.7pts to 57) also rose on the month, as did inventory indicators.
- On the other hand, business activity ticked lower, down 0.3 points to a still strong 61.4. Employment (-4.4pts to 53.8) also experienced a sharp reversal as did both export and import indicators, both down 4 points to 53 and 50, respectively. The backlog of orders also fell, down 3 points to 48 during the month.
- Overall comments from contacts were largely positive, with two-thirds of the 18 non-manufacturing industries surveyed reporting growth in December. Three reported unchanged activity, with public administration, wholesale trade, and agriculture the only ones to report declines in activity.

### Key Implications

- This was an encouraging report. The headline index held at the highest level in more than a year with optimistic comments from industry participants. Alongside its manufacturing cousin, which saw further strength through December, the report suggests that the U.S. economy entered 2017 on a solid footing despite elevated political uncertainty and rising interest rates.
- Particularly encouraging was the lurch higher in the new orders sub-index, which now sits at its highest level since August 2015, and indicates that businesses are becoming increasingly optimistic as far as their demand prospects. At the same time, their costs of doing businesses are rising, with the prices paid sub-index rising to the highest level in more than two years, giving additional comfort to the Fed that inflation will track towards its 2% target, and reassuring the FOMC to continue on its tightening path.
- Still, the report was not without disappointments, with both external sub-components declining on the month, potentially stemming from rising anxiety over the still uncertain trade policies of the incoming administration. Furthermore, the employment sub-index also gave back most of the gains seen in the previous month, which along with the weak-ish ADP print this morning hints at a potentially disappointing employment report tomorrow morning.

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