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TD Economics

Data Release: U.S. manufacturing activity expands for the sixth consecutive month in February

- The Institute for Supply Management (ISM) manufacturing index rose 1.7 points to 57.7 in February. This marks the sixth consecutive month of expansion in the U.S. manufacturing sector, and pushes the pace of expansion to its strongest showing since August 2014. The reading was above consensus expectations for the index to hold at its January reading of 56.
- Most subcomponents of the index expanded at a faster pace in February. The backlog of new orders rose enough to suggest an expansion rather than a contraction (+7.5 to 57). New orders also rose strongly (+4.7 to 65.1), followed by imports (+4.0 to 54). Declines were observed in employment (-1.9 to 54.2), prices (-1.0 to 47.5), and customers' inventories (-1.0 to 47.5).
- Given the strength in new orders and the weakness in inventories, the spread between the two – useful as a leading indicator of activity – widened slightly in February to 13.6 (January: 11.9). This suggests that momentum in the expansion of manufacturing activity is likely to continue in the coming months.
- Seventeen of the eighteen industries reported expansion in February, with textile mills, apparel, leather and allied products, and machinery registering as the top three categories driving the expansion in the month.

Key Implications

- February's ISM manufacturing report is broadly positive. It suggests that the U.S. manufacturing sector continued to expand at a robust pace at the start of this year. All categories except customers' inventories are expanding, while both new orders and production have surged back up near cycle highs. Comments by survey respondents were broadly positive, with rising energy prices being acknowledged by some industries as a challenge, but not a game changer.
- Despite its recent strong showing, the U.S. manufacturing sector will face a number of challenges this year. The high dollar will continue to dampen the export competitiveness of U.S. firms, and policy uncertainty, both domestic and abroad, could weigh on demand.
- February's ISM data for the U.S. manufacturing sector mirrors the good news from other purchasing manager's surveys for Europe, Japan, China, and other large emerging markets released this morning. So far the survey data for 2017 suggests that the momentum from the strong pickup in global economic growth at the end of last year has carried over into January and February. While this implies that global economic growth is on track to expand at an above 3.0% annualized pace in the first quarter, we await confirmation from the hard data that is to come in the following weeks.

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