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## TD Economics

### Data Release: U.S. manufacturing activity expands for the fifth consecutive month in January

- The Institute for Supply Management (ISM) manufacturing index rose 1.5 points to 56 in January. This marks the fifth consecutive month of expansion in the U.S. manufacturing sector with the pace of expansion strongest in more than two years. The reading was above consensus expectations for a less pronounced uptick to 55.
- Almost all subcomponents rose in January, with employment registering the largest advance (+3.3 to 56.1), followed by prices (+3.5 to 69), and production (+2.0 to 61.4). Declines were observed in new export orders (-1.5 to 54.5), imports (-0.5 to 50), and customers' inventories (-0.5 to 48.5).
- The spread between new orders and inventories – a leading indicator of activity – narrowed slightly in January to 11.9 (December: 13.3) but remains elevated. This suggests that momentum in the expansion of manufacturing activity is likely to continue in the coming months, albeit at a slightly more subdued pace.
- Twelve of the eighteen industries reported expansion in January, with plastic and rubber products, miscellaneous manufacturing, and apparel, leather and allied products registering as the top three categories driving growth during the month.

### Key Implications

- The U.S. manufacturing sector remained in solid expansionary mode at the start of the year, rising to the quickest pace in over two years. There are few areas of concern, particularly given the inventory overhang, with both producer and customer inventories, as well as the backlog of orders remaining in contractionary territory. Comments by survey respondents were generally positive, however, with few signs that global events have had a material impact on demand. Nevertheless, one respondent in the machinery industry did mention that they were concerned that import restrictions on hot rolled steel were beginning to result in supply shortages. Supply disruptions and potential shortages may become more of a concern to U.S. manufacturers should the new U.S. administration follow through with its threats to impose protectionist trade measures.
- Price growth in January recorded its fastest pace of advance since the spring of 2011. Price growth was driven up by higher commodity prices, a factor that will contribute strongly to the rise in headline producer and consumer prices through 2017. It should be noted that this price growth will largely be viewed as transitory by the FOMC, as the core measures of consumer prices that policymakers monitor closely are expected to remain muted and still below its 2% target.
- Today's data will have little implications for the FOMC's interest rate decision this afternoon, but continues to feed into the narrative of above trend growth in the U.S. economy, with a corresponding gradual absorption of excess capacity. While the FOMC is largely expected to remain on hold today, we anticipate that the gradual process of monetary policy normalization currently underway in the U.S. will see the policy rate rise once in the first half of the year, with another 25bps hike slotted in before year end.

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