

# YOUR ECONOMIC DASHBOARD: THE ISM *REPORT ON BUSINESS* ®

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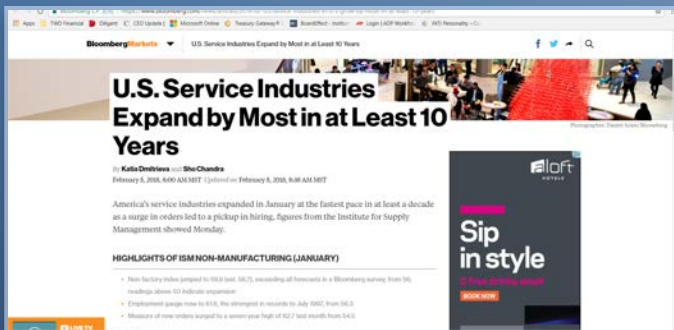
26 FEBRUARY 2018

# AGENDA

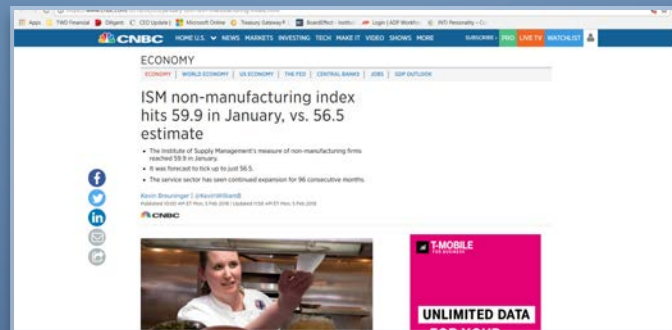
1. Brief Background: The ISM *Report on Business* ®
2. 2018 Macroeconomic Outlook
3. Using the *Report on Business* to construct your own real-time economic dashboard
4. Questions & Discussion

# 1. BACKGROUND: ISM *REPORT ON BUSINESS* ®

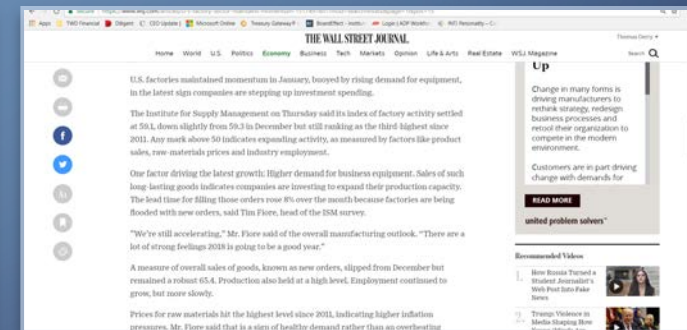
# TYPICAL MEDIA COVERAGE: FEBRUARY 2018



BLOOMBERG



CNBC



WALL STREET JOURNAL

“HIGHLY REGARDED BY BUSINESS ANALYSTS BECAUSE  
THEY HAVE PROVEN TO BE A RELIABLE GAUGE OF  
ECONOMIC ACTIVITY OVER A LONG PERIOD”  
– RICHMOND FED



ALAN GREENSPAN

"I find the surveys conducted by the purchasing and supply managers to be an excellent supplement to the data supplied by various departments and agencies of government."



MICHAEL BOSKIN

"The *ISM Manufacturing Report On Business*® has one of the shortest reporting lags of any macro-economic series and gives an important early look at the economy. It also measures some concepts (such as lead times and delivery lags) that can be found nowhere else. It makes an important contribution to the American statistical system and to economic policy."



JOSEPH STIGLITZ

"The *ISM Manufacturing Report On Business*® is extremely useful. The PMI, the *Report's* composite index, gives the earliest indication each month of the health of the manufacturing sector. It is an essential component for assessing the state of the economy."

# BREXIT: JUNE 23, 2016

ISM Survey Finds 'Muted' U.S. Business Brexit View

U.S. MANUFACTURING EXPANDS AT FASTEST PACE IN MORE THAN A YEAR

ISM Survey Finds 'Muted' U.S. Business Brexit View

May: U.K. Strong, More Outward-Looking Post-Brexit

China's Xi Defends Globalization at World Economic Forum

Saudi Seek Up to \$50 Billion for Renewables Plan

Deutsche Bank's Cryan: We Need People

Haas: U.K. Takes 'Cake and Eat It Too' Brexit Approach

Is Trump Torn Between a Strong and Weak U.S. Dollar?

Davos Chief Schwab Weighs In on Trump and WEF's Relevance

Best Day for British Pound Since 2000

Qualcomm Chairman Jacobs on Tech Under Donald Trump

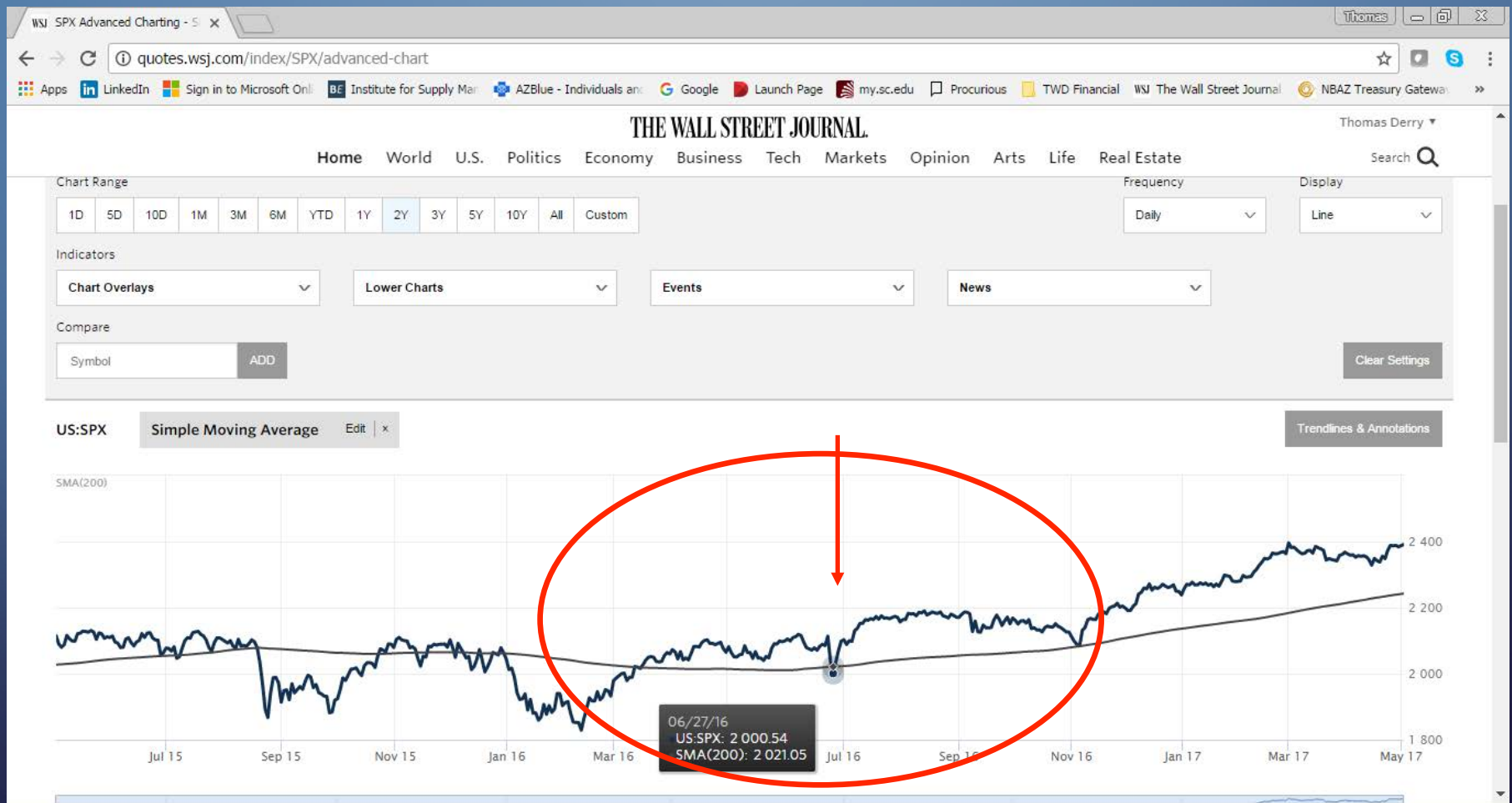
Malaysia Airlines CEO: The Worst Is Behind Us

Bloomberg

U.S. MANUFACTURING EXPANDS AT FASTEST PACE IN MORE THAN A YEAR

ISM Survey Finds 'Muted' U.S. Business Brexit View

# IMPACT OF REAL-TIME DATA ON CAPITAL MARKETS



# WITH INFLUENCE COMES RESPONSIBILITY...

WSJ Stocks End Up Despite Jolt X

www.wsj.com/articles/stock-futures-edge-higher-ahead-of-manufacturing-data-1401711948

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DOW JONES, A NEWS CORP COMPANY

DJIA ▲ 19170.42 -0.11% S&P 500 ▲ 2191.95 0.04% Nasdaq ▲ 5255.65 0.09% U.S. 10 Yr ▲ 17/32 Yield 2.388% Crude Oil ▲ 51.66 1.18% Euro ▲ 1.0668 0.06%

## THE WALL STREET JOURNAL.

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< Regulator Will Let Online Lenders Act More Like National Banks Little Slack But Not Much Heat in Labor Market U.S. Stocks Mixed After Jobs Report Deutsche Bank to Cut Off Around 3,400 Clients

Today's Markets

### Stocks End Up Despite Jolt From Erroneous Economic Data

DJIA, S&P 500 Recover From Losses Caused by ISM Error on U.S. Manufacturing Data

By STEVEN RUSSOLILLO, CHRIS DIETERICH and MIN ZENG 2 COMMENTS

Updated June 2, 2014 11:06 p.m. ET

Stocks Watch  
Dow Jones Industrial Average

Chart has no data

19170.42

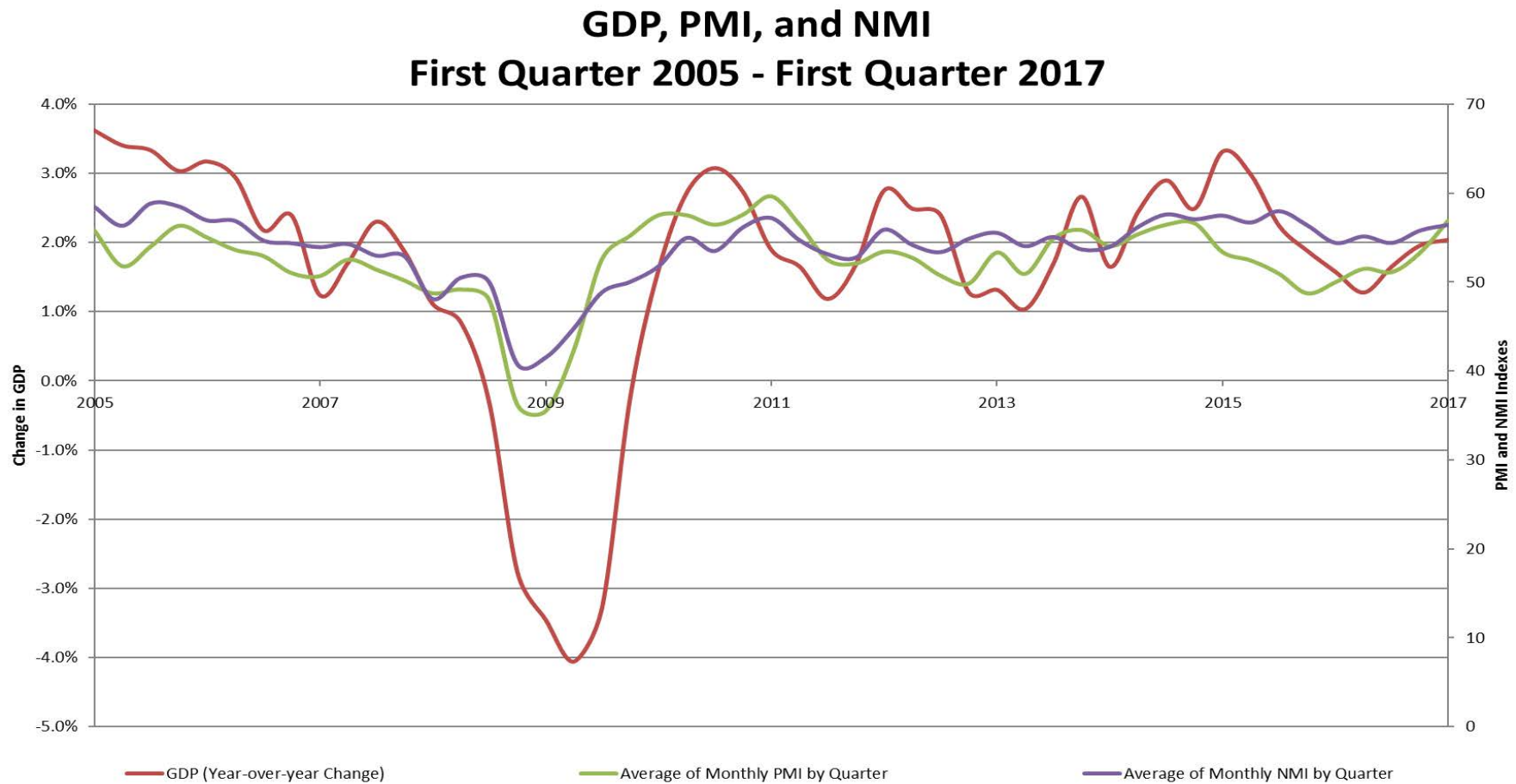
Trading stocks and bonds after the release of factory data usually isn't a high-risk operation. But Monday morning's Institute for Supply Management report wasn't your typical

FOUR SEASONS RESORT

cea logo.jpg cea.jpg Show all X

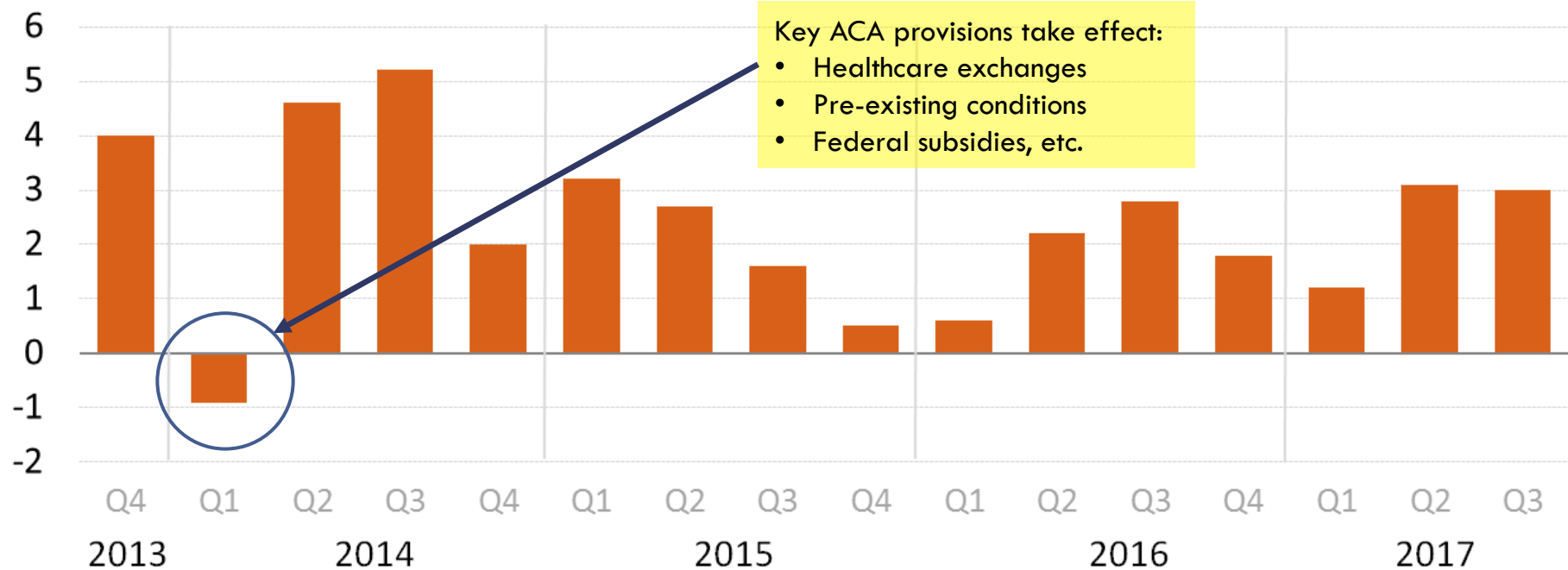


# U.S. GDP, PMI, AND NMI GENERALLY TRACK TOGETHER



# JANUARY 2014 GDP “SURPRISE”

Real GDP: Percent change from preceding quarter



U.S. Bureau of Economic Analysis

Seasonally adjusted annual rates

# ISM EXPLAINS HEALTH SECTOR IMPACT ON SURPRISE CONTRACTION

ISM CEO: Growth rate decelerating

video.cnbc.com/gallery/?video=3000262541

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**THE SANTELLI EXCHANGE**  
BUSINESS ACTIVITY OUTLOOK

ASDAQ -0.42%  
1,258.70

**ISM CEO: Growth rate decelerating**  
Thursday, 3 Apr 2014 | 10:43 AM ET  
CNBC's Rick Santelli and ISM CEO Thomas Derry discuss the March manufacturing survey results and just how weather impacted the data.

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Cramer Remix: Why

Is the worst over for

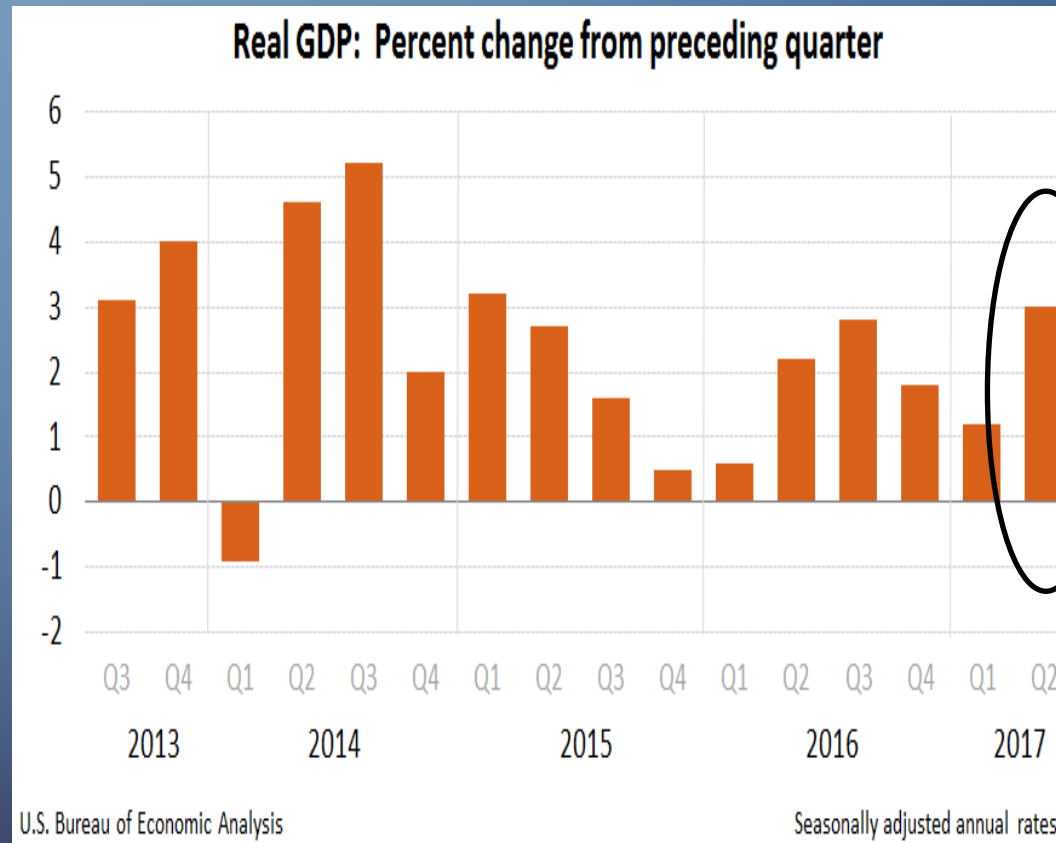
AMD earnings,

AMD sacked for a loss

# U.S. GDP UPWARD REVISION Q2 2017

Real gross domestic product (GDP) increased at an **annual rate of 3.0 percent in the second quarter** of 2017 (table 1), according to the "second" estimate released by the Bureau of Economic Analysis. In the first quarter, real GDP increased 1.2 percent.

The GDP estimate released today is based on more complete source data than were available for the "advance" estimate issued last month. **In the advance estimate, the increase in real GDP was 2.6 percent.**





## 2. 2018 MACROECONOMIC OUTLOOK

# IMF WORLD ECONOMIC OUTLOOK PROJECTIONS

|                    | Year over Year |      |             |      |
|--------------------|----------------|------|-------------|------|
|                    | Estimate       |      | Projections |      |
|                    | 2016           | 2017 | 2018        | 2019 |
| World Output       | 3.2            | 3.7  | 3.9         | 3.9  |
| Advanced Economies | 1.7            | 2.3  | 2.3         | 2.2  |
| United States      | 1.5            | 2.3  | 2.7         | 2.5  |
| Euro Area          | 1.8            | 2.4  | 2.2         | 2.0  |
| Germany            | 1.9            | 2.5  | 2.3         | 2.0  |
| France             | 1.2            | 1.8  | 1.9         | 1.9  |
| Italy              | 0.9            | 1.6  | 1.4         | 1.1  |
| Spain              | 3.3            | 3.1  | 2.4         | 2.1  |
| Japan              | 0.9            | 1.8  | 1.2         | 0.9  |

## PMI ® INDEX TRAILING 12 MONTHS

| <i>Month</i>                                              | <i>PMI®</i> |  | <i>Month</i> | <i>PMI®</i> |
|-----------------------------------------------------------|-------------|--|--------------|-------------|
| Jan 2018                                                  | 59.1        |  | Jul 2017     | 56.5        |
| Dec 2017                                                  | 59.3        |  | Jun 2017     | 56.7        |
| Nov 2017                                                  | 58.2        |  | May 2017     | 55.5        |
| Oct 2017                                                  | 58.5        |  | Apr 2017     | 55.3        |
| Sep 2017                                                  | 60.2        |  | Mar 2017     | 56.6        |
| Aug 2017                                                  | 59.3        |  | Feb 2017     | 57.6        |
| Average for 12 months – 57.7<br>High – 60.2<br>Low – 55.3 |             |  |              |             |

"Business outlook is positive on all fronts right now with our customers. Budgets are being approved for new projects, and component prices from suppliers have temporarily stabilized." (Computer & Electronic Products)

Composite index is the average of sub-indices for New Orders, Production, Employment, Supplier Deliveries and Inventories

# EXPORTS

January New Export Orders index  
= 59.8

Highest level since April 2011

Export orders have been  
increasing for 23 consecutive  
months

## ICE U.S. Dollar Index



Source: Thomson Reuters

# IMPLICATIONS OF “PEAK” PMI FOR STOCK MARKET

## HISTORICALLY NOTHING TO FEAR



### Average Sector Performance Before & After Peak U.S. PMI

| Sector             | -12Mos       | -6Mos        | -3Mos       | +3Mos       | +6Mos       | +12Mos      |
|--------------------|--------------|--------------|-------------|-------------|-------------|-------------|
| Utilities          | 6.3%         | 2.0%         | 0.9%        | 6.2%        | 13.2%       | 23.2%       |
| Health Care        | 20.8%        | 13.5%        | 8.5%        | 1.7%        | 7.7%        | 21.9%       |
| Staples            | 15.2%        | 9.2%         | 4.5%        | -0.9%       | 3.6%        | 13.3%       |
| Financials         | 23.2%        | 11.5%        | 7.5%        | -2.5%       | 1.4%        | 11.4%       |
| Technology         | 44.4%        | 21.2%        | 13.2%       | 1.9%        | 5.3%        | 11.3%       |
| Discretionary      | 20.7%        | 11.0%        | 6.3%        | -0.5%       | 4.3%        | 10.0%       |
| Industrials        | 24.5%        | 12.3%        | 6.1%        | -0.1%       | 5.3%        | 9.3%        |
| <b>S&amp;P 500</b> | <b>23.8%</b> | <b>13.3%</b> | <b>7.5%</b> | <b>0.0%</b> | <b>3.6%</b> | <b>9.2%</b> |
| Telecom            | 17.7%        | 10.1%        | 4.9%        | 2.3%        | 5.9%        | 9.2%        |
| Real Estate        | 25.4%        | 12.2%        | 5.1%        | 6.4%        | 6.8%        | 8.1%        |
| Energy             | 26.9%        | 19.6%        | 8.5%        | -3.6%       | 1.2%        | 4.0%        |
| Materials          | 24.8%        | 12.1%        | 5.4%        | -4.7%       | -1.1%       | -4.7%       |

Source: ISM, Strategas Research Partners



# 3. CONSTRUCTING YOUR OWN REAL-TIME ECONOMIC DASHBOARD



# THE ISM ECONOMIC DASHBOARD

- U.S. GDP GROWTH RATE
- INFLATION TREND
- INFLECTION POINTS IN COMMODITY MARKETS
- SUPPLIER LEAD TIMES
- INPUT PRICES



# THE ISM 'SPEEDOMETER'

## MANUFACTURING (PMI)

The past relationship between the PMI<sup>®</sup> and the overall economy indicates that the average PMI<sup>®</sup> for January (59.1 percent) corresponds to a **4.9 percent increase in real gross domestic product** (GDP) on an annualized basis.

## NON-MANUFACTURING (NMI)

The past relationship between the NMI<sup>®</sup> and the overall economy indicates that the NMI<sup>®</sup> for January (59.9 percent) corresponds to a **4.0 percent increase in real gross domestic product** (GDP) on an annualized basis.

# CURRENT GDP CALCULATION BY SECTOR WEIGHT

## MANUFACTURING

$$4.9 \times 12 = 58.8$$

## SERVICES

$$4.0 \times 88 = 352$$

## OVERALL ECONOMY

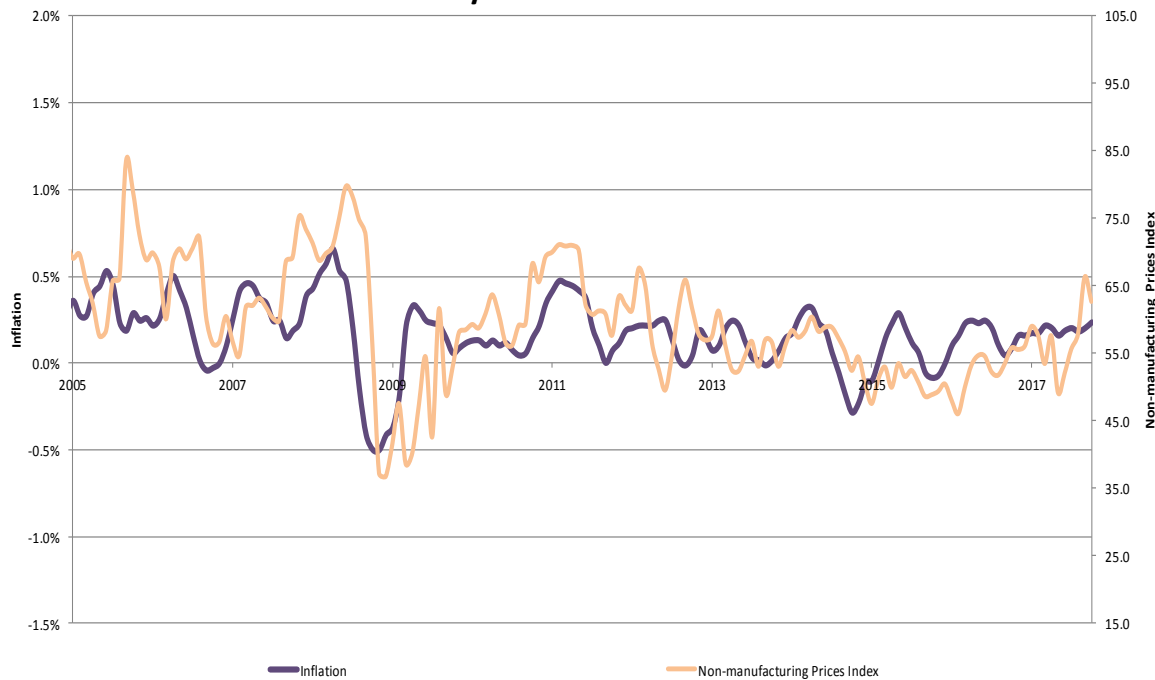
$$58.8 + 352 = 410.8$$

$$\underline{410.8 / 100 = 4.1\% \text{ GDP (ANNUALIZED)}}$$



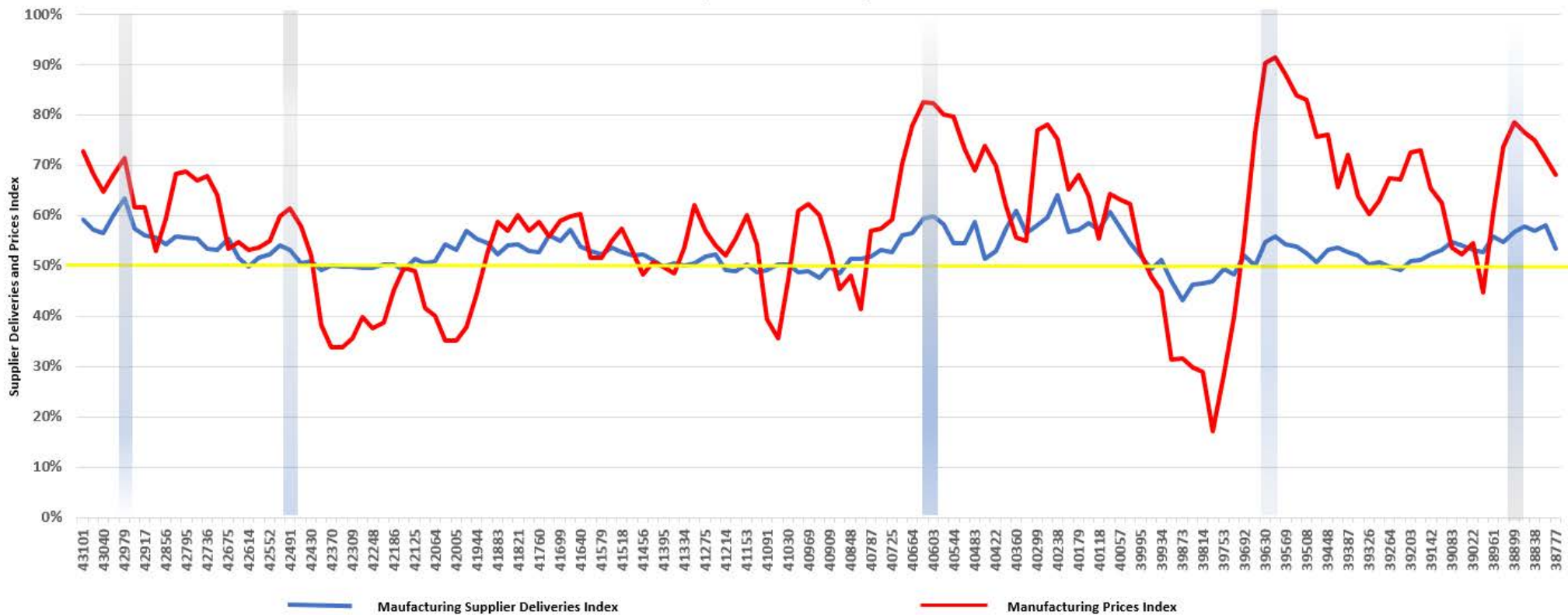
# ISM's NON-MANUFACTURING PRICES INDEX ALIGNS WITH INFLATION

Inflation and ISM Non-manufacturing Prices Index  
January 2005 - October 2017



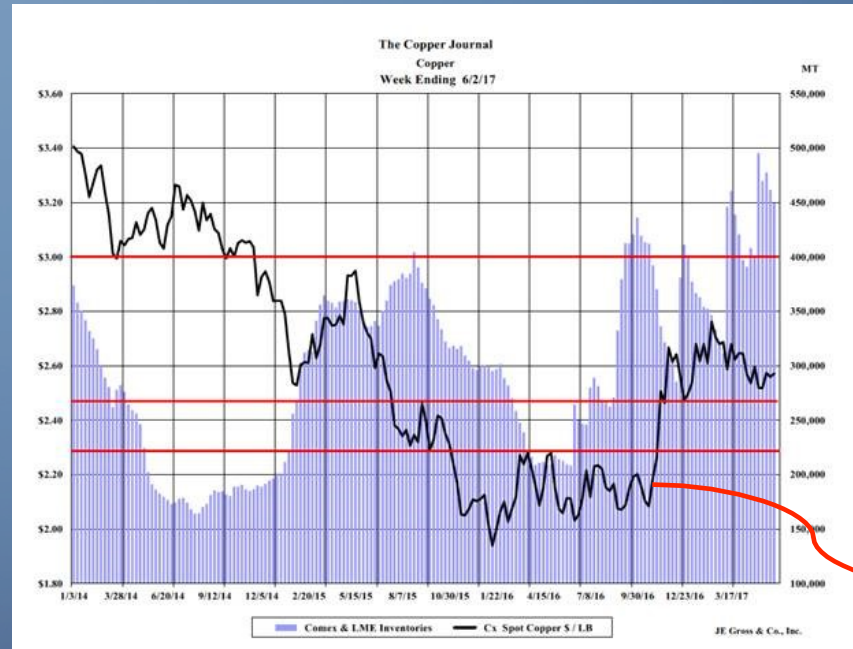
# SLOWING SUPPLIER DELIVERIES COINCIDE WITH INCREASING PRICES

ISM Manufacturing Supplier Deliveries and Prices  
January 2006 - January 2018



# NOVEMBER 2016 NON-MANUFACTURING

HGZ12 - High Grade Copper (COMEX)



“Similarly, copper is reported as increasing in price across both sectors, with the increase in non-manufacturing reported for two consecutive months. Copper prices have been falling steadily for more than 5 years, from more than \$4.00 per pound to a recent close around \$2.20 per pound. However, copper prices started moving north in October, and are now around \$2.66 per pound. If copper is part of your sourcing portfolio, you need to act now to understand factors driving this recent reversal of this long-term pricing trend.”

# SUPPLIER LEAD TIMES

| Supplier Deliveries | % Slower | % Same | % Faster | Net   | Index |
|---------------------|----------|--------|----------|-------|-------|
| Jan 2018            | 23.5     | 71.3   | 5.2      | +18.3 | 59.1  |
| Dec 2017            | 19.0     | 74.6   | 6.3      | +12.7 | 57.2  |
| Nov 2017            | 21.0     | 68.5   | 10.5     | +10.5 | 56.6  |
| Oct 2017            | 25.7     | 68.8   | 5.5      | +20.2 | 60.1  |

- “This is the **16th straight month** of slowing supplier deliveries. Continued delivery/performance difficulties are affecting production expansion. During the period, gains were made to inventories in spite of these ongoing supply chain issues.”
- The 12 industries reporting slower supplier deliveries in January — listed in order — are: Textile Mills; Apparel, Leather & Allied Products; Petroleum & Coal Products; Machinery; Nonmetallic Mineral Products; Paper Products; Chemical Products; Plastics & Rubber Products; Fabricated Metal Products; Food, Beverage & Tobacco Products; **Computer & Electronic Products**; and Transportation Equipment.

# INPUT PRICES

| Prices   | %<br>Higher | %<br>Same | %<br>Lower | Net   | Index |
|----------|-------------|-----------|------------|-------|-------|
| Jan 2018 | 46.6        | 52.1      | 1.3        | +45.3 | 72.7  |
| Dec 2017 | 40.4        | 55.8      | 3.9        | +36.5 | 68.3  |
| Nov 2017 | 35.3        | 58.9      | 5.8        | +29.5 | 64.8  |
| Oct 2017 | 42.9        | 50.4      | 6.7        | +36.1 | 68.1  |

- Highest since May 2011
- All 18 manufacturing industries reported paying higher prices month-over-month
- Raw materials prices have increased for 23 consecutive months
- Short supply: capacitors (7), electrical components (2), integrated circuits, memory, resistors (3), silicone, and titanium dioxide (3).



## 4. QUESTIONS & DISCUSSION

