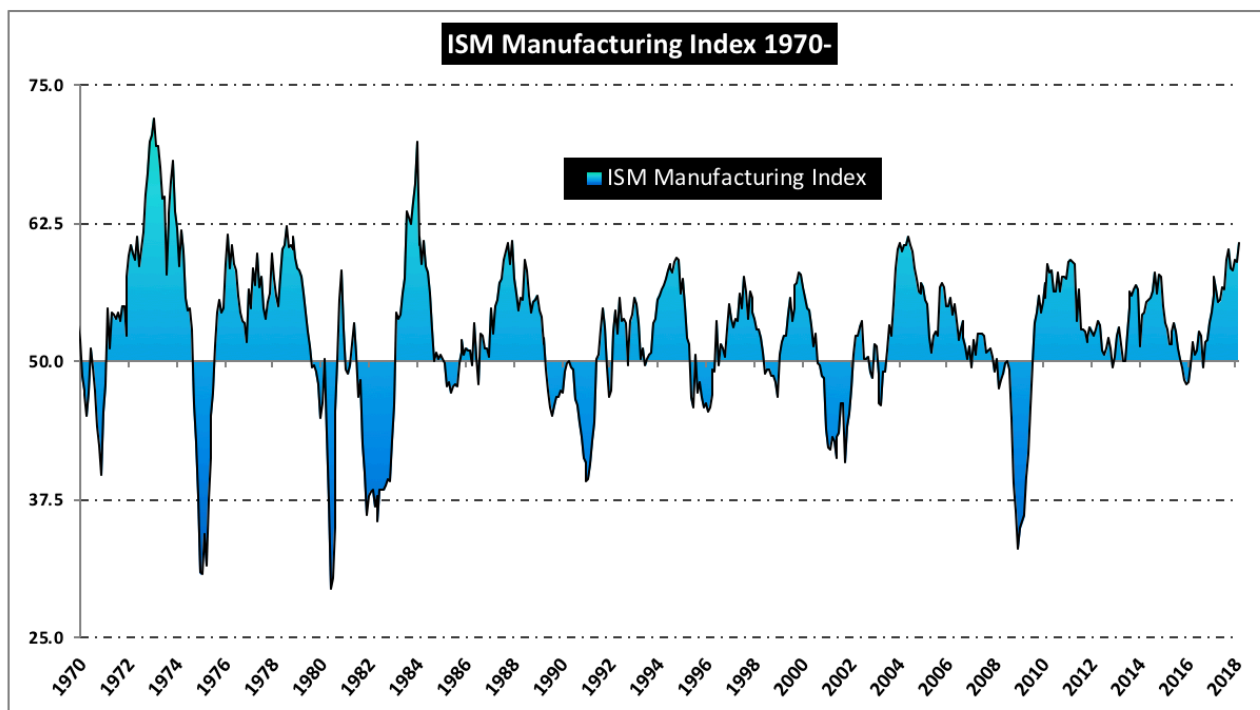


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ALERT - HEALTH OF US MANUFACTURING: ISM Manufacturing February 2018

The ISM PMI index (Purchasing Manufacturers Index) rose to 60.8% and is the 18th straight month of growth in the manufacturing sector, which “corresponds to a 5.4% increase in real gross domestic product (GDP) on an annualized basis.”[1] All the doom and gloom has not showed up yet, and a recession does not appear in the cards yet for the broader economy. But we remain vigilant for a slowdown in the PMI and its impact on the broader economy.



Source: ISM, ITPM, First Macro Capital

WHAT RESPONDENTS SAID IN THE SURVEY:

- “It seems the tax break for business is making a difference. Customers are spending more for capital equipment.” (Machinery)[2]
- **PRIMARY METALS - There were no comments from the mining sector in this month’s survey.**

INDUSTRIES DISTRIBUTION and NOTES February 2018			
INDUSTRY	Sentiment	Level	Notes
Printing & Related Support Activities	Growth	15	
Primary Metals	Growth	14	
Machinery	Growth	13	“It seems the tax break for business is making a difference. Customers are spending more for capital equipment.” (Machinery)
Computer & Electronic Products	Growth	12	“Availability of electronic components, long lead times, allocations and constraints continue to wreak havoc in the purchasing cycle, with no end in sight at this time.” (Computer & Electronic Products)
Petroleum & Coal Products	Growth	11	“Hiring has picked up for direct-hire employees. Due to end-of-2017 performance and improvement in commodity price, there has been an increase in capital budget.” (Petroleum & Coal Products)
Nonmetallic Mineral Products	Growth	10	
Plastics & Rubber Products	Growth	9	“Business is very strong, and our lines are running at full capacity.” (Plastics & Rubber Products)
Fabricated Metal Products	Growth	8	“Steel market is doing rather well. Everybody is out of what I need.” (Fabricated Metal Products)
Chemical Products	Growth	7	“Our business saw [an] increase in fourth quarter, and it continued in January 2018. CapEx purchase deliveries are moving out globally.” (Chemical Products)
Transportation Equipment	Growth	6	“Labor market continues to be tight for supply chain talent in the Southern California area. Overall economy is strong.” (Transportation Equipment)
Textile Mills	Growth	5	
Miscellaneous Manufacturing	Growth	4	“We expect to have a strong year in 2018. In expectation, we have added to our sales staff and plan on adding to our production staff.” (Miscellaneous Manufacturing)
Paper Products	Growth	3	
Electrical Equipment, Appliances & Components	Growth	2	“The weakening U.S. dollar in relationship to the yuan is starting to impact importing cost. We are starting to see more supplier price increases.” (Electrical Equipment, Appliances & Components)
Food, Beverage & Tobacco Products	Growth	1	“Employment is one of our biggest challenges. No labor available.” (Food, Beverage & Tobacco Products)
Wood Products	Neutral	0	
Furniture & Related Products	Contraction	-1	
Apparel, Leather & Allied Products	Contraction	-2	

Source: ITPM, ISM

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Manufacturing at a glance February 2018						
Index	Index Feb	Index Jan	Change %	Direction	Rate of change	Trend (Months)
PMI®	60.8	59.1	1.7	Growing	Faster	18
New Orders	64.2	65.4	-1.2	Growing	Slower	26
Production	62.0	64.5	-2.5	Growing	Slower	18
Employment	59.7	54.2	5.5	Growing	Faster	17
Supplier Deliveries	61.1	59.1	2.0	Slowing	Faster	17
Inventories	56.7	52.3	4.4	Growing	Faster	2
Customers' Inventories	43.7	45.6	-1.9	Too Low	Faster	17
Prices	74.2	72.7	1.5	Increasing	Faster	24
Backlog of Orders	59.8	56.2	3.6	Growing	Faster	13
New Export Orders	62.8	59.8	3.0	Growing	Faster	24
Imports	60.5	58.4	2.1	Growing	Faster	13
OVERALL ECONOMY				Growing	Faster	106
Manufacturing Sector				Growing	Faster	18

Source: ITPM, ISM, First Macro Capital

FROM A COMMODITY PERSPECTIVE:

Overall, the economy continues to remain healthy, and this is being reflected in the commodity prices for the manufacturing of goods. A rise in base metals prices is appearing in the rise of commodity products such as copper (4 consecutive months), nickel (2 consecutive months), aluminum (16 consecutive months), and diesel. It is interesting to note that all steel categories continue to reflect rising prices, even before the U.S. announced they will be placing tariff on steels. We would expect rising prices to continue if the United States places tariffs on imported steel. Overtime this will impact the manufacturing sector and consumers will feel the effects of this.

Commodities Up in Price	Commodities Down in Price	Commodities in Short Supply
Aluminum (16); Caustic Soda (8); Copper (4); Corrugate (17); Crude Oil (2); Diesel; Freight; Nickel (2); Memory; Packaging Materials; PET Bottles; Phosphoric Acid; Pigments; Polyethylene (2); Polyurethane (2); PVC Resin; Resin Based Products; Steel — Cold Rolled (2); Steel — Fabricated & Machined Parts; Steel — SBQ & Alloy Bars; Steel — Scrap (3); Steel — Galvanized (2); Steel — Hot Rolled (15); Steel — Stainless (3); Sulfuric Acid (2); Titanium Dioxide (5); Vitamins (2).	None	Capacitors (8); Freight; Resistors (4); Skilled Labor; Titanium Dioxide (4).

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Note: The number of consecutive months the commodity is listed is indicated after each item. Source: ISM

Sources:

[1] ISM

[2] ISM

GUIDE

What is the Non-Manufacturing ISM?

On a monthly basis, a survey is sent out by the Institute of Supply Management to non-manufacturing purchasing & supply executives, and they report on information based ONLY on the current month of the survey. A report is then published in the following month, showing the results from the survey, and lists the industries that are growing or contracting.

What is the Manufacturing ISM?

On a monthly basis, a survey is sent out by the Institute of Supply Management to manufacturing purchasing & supply executives, and they report on information based ONLY on the current month of the survey. A report is then published in the following month, showing the results from the survey, and lists the industries that are growing or contracting.

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