THE WALL STREET JOURNAL.

MANUFACTURING ACTIVITY GROWS, EMPLOYMENT SLOWS

By Josh Mitchell
January 3, 2018

The U.S. factory sector posted one of its best months of the economic expansion in December as sales hit a 14-year high, the latest sign economic growth is picking up.

A key manufacturing index rose 1.5 percentage points from a month earlier to a reading of 59.7 in December, the second-highest level since early 2011, the Institute for Supply Management said Wednesday. A subindex of new orders – a measure of sales at factories – rose more than 5 points to 69.4, the highest since early 2004.

Readings above 50 indicate growth, while readings below 50 indicate contraction.

Economists surveyed by The Wall Street Journal had expected the overall index to slip to 58 in December.

Details hinted at further growth in coming months. While sales picked up, inventories – at both factories and their customers – fell. That combination suggests factories will have to boost production further in the first quarter of 2018 to satisfy demand.

Timothy Fiore, head of the ISM survey, pointed out the industry is also likely to see higher demand in 2018 due to a $1.5 trillion tax cut passed by Congress late last year. The tax-cut package is designed in part to prod U.S. businesses to spend on big-term projects, such as equipment and factories, in turn lifting demand for factory-made products.

“I think it’s really strong,” Mr. Fiore said of the sector’s health, in large part due to synchronized growth in the U.S. and around the globe. “You’ve got most of the major economies around the world in good shape.”

Ian Shepherdson, chief economist at Pantheon Macroeconomics, said in a note to clients: “The manufacturing upswing continues, with no near-term clouds visible,”

The report also showed a pickup in price pressures felt by factories. That could mean U.S. inflation is rising from modest levels. Employment growth at manufacturers, meanwhile, slowed, in part because of a lack of skilled workers. Mr. Fiore said.

The ISM said the December level of activity corresponds with the overall economy growing at an annual rate of 5.2 percent. Many economists believe it would be nearly impossible for the economy to sustain such a pace given the aging population and weak productivity growth. U.S. economic output grew at a 3.2 annual pace in the third quarter, according to the government’s latest estimate, and many private-sector economists estimate output expanded at a roughly 2 percent rate in the fourth quarter.