



# Economics Group

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## A Two-Year Low for ISM

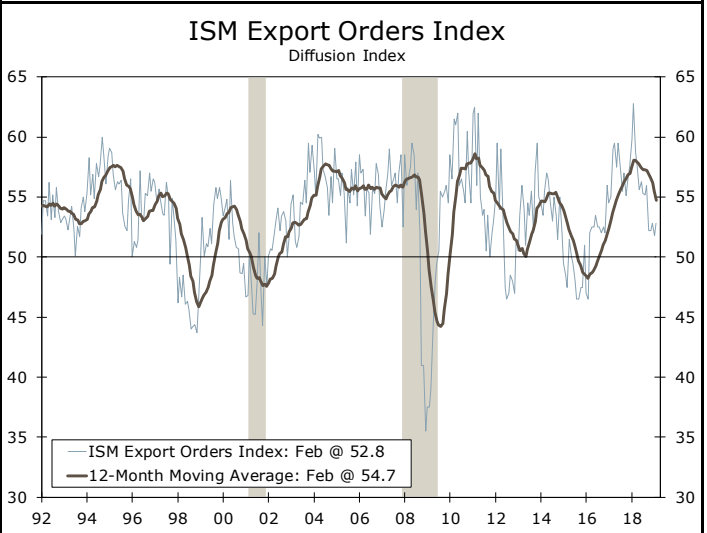
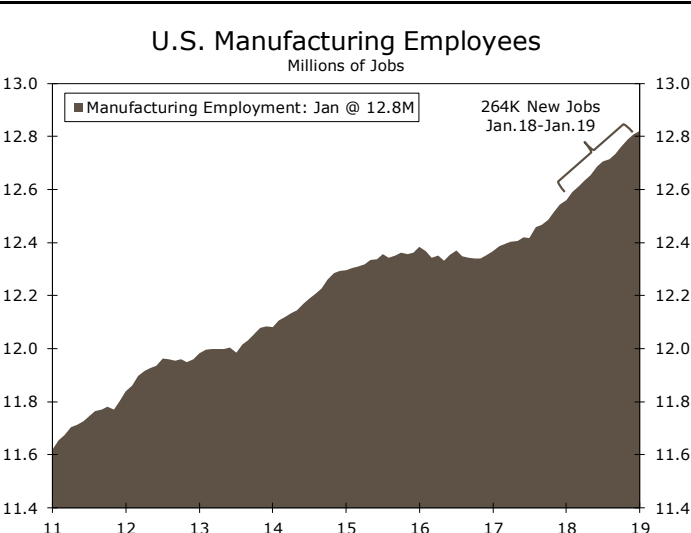
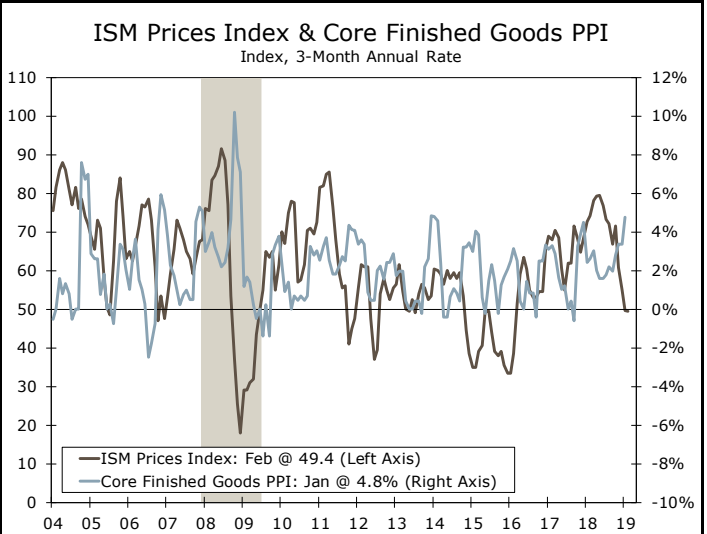
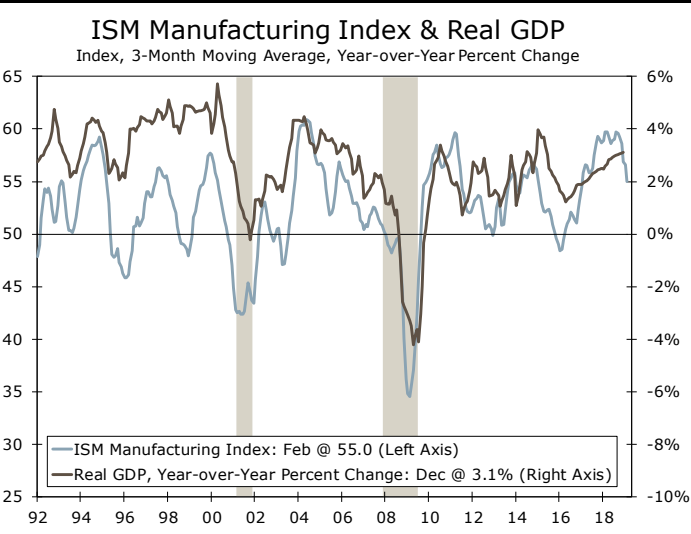
*The ISM manufacturing index slipped in February to 54.2, a number that, while still in expansion, reflects the slowest pace of factory sector activity since 2016.*

**Factory Sector is Under Pressure**

- The ISM index is clearly rolling over (top left chart). This has happened twice in this cycle without leading to a recession, but it does raise doubts about the manufacturing outlook.
- The employment component slipped 3.2 points to 52.3 in February, which may shrink expectations for next week's jobs report. It also lets some of the wind out of the sails for manufacturing jobs, which increased 264K in 2018 as a whole.

**When Trade Winds Are Headwinds**

- Prices paid, a warning sign for future price trends, fell below the break-even 50 for the first time since 2016. Amid trade tensions, wholesale prices for finished goods have been rising at the fastest pace in years; some relief here may be welcome.
- It is difficult to remain sanguine about trade dynamics, though, amid the steep decline in ISM export orders. A year ago, this measure was at 62.8; today it is 10 points lower at 52.8.



Source: Institute for Supply Management, U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities

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