

ISM Optimism

eResearch Corporation is pleased to provide an article by Scott Grannis for his Blog, "Calafia Beach Pundit".

In this article, Mr. Grannis discusses the latest information from the Institute of Supply Management.

The article is reproduced below, beginning on the next page, or you can go to this specific Blog at the following link: [ISM optimism](#)

You can also visit Scott Grannis' Home Page for his Blog at the link below:
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ISM Optimism

The monthly surveys of the Institute for Supply Management are very timely (though not real-time) indicators of the health of the manufacturing and service sector industries, and that is a good reason to pay attention to each release on the first of the month. They are not perfect, but when they register strong levels it is almost always the case that the economy is doing well. I dedicate this post to today's manufacturing sector release, which was uniformly positive. That is comforting, given the backdrop of tariff wars.

It is obvious that the market is more concerned about the threat of a tariff war, as evidenced by today's renewed decline in stock prices, than it is bolstered by the strong ISM surveys. Trump has mandated tariff hikes targeted to China, and China is now retaliating with its own tariffs on selected U.S. goods. This way lies misery, and the real losers will be consumers in both China and the USA, who will be saddled with higher prices for a wide range of products. We can only hope that these are negotiating tactics on both sides, and that in the final analysis trade between the USA and China will become more fair and more free. If not, we will have a mess on our hands and Trump's presidency will end in ignominy. Can he really be so stupid as to carry this tariff war to its disastrous conclusion? Thank goodness he has Larry Kudlow at his side to warn him of this danger.

Chart #1

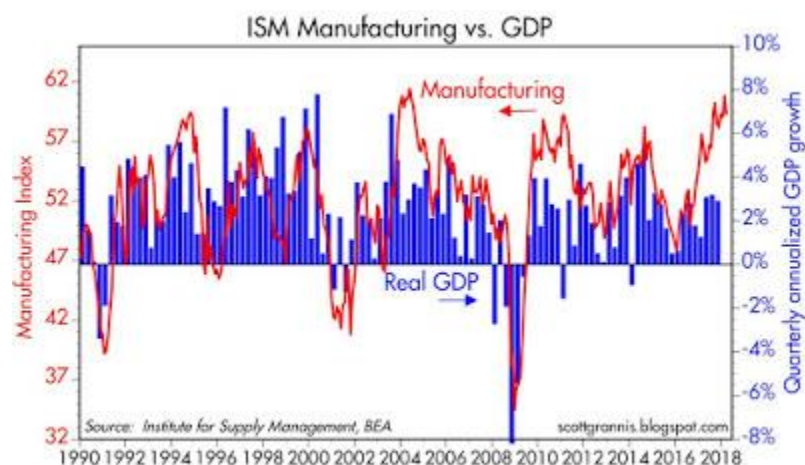


Chart #1 compares the overall ISM manufacturing index to quarterly GDP growth. The two don't track perfectly, but as I look at the chart it strongly suggests that Q1/18 GDP growth is very likely to exceed current estimates which, according to the current output of the Atlanta and NY Fed's models, are likely to be just under 3%. I would wager that if the ISM index remains at or near these levels for several more months, we are very likely to see some stronger-than-expected GDP numbers before too long.



Chart #2 tracks export orders. Although the March reading dropped from the very high level of the February reading, this survey still suggests that overseas economies are doing well, and U.S. exporters are enjoying strong demand.

Chart #2

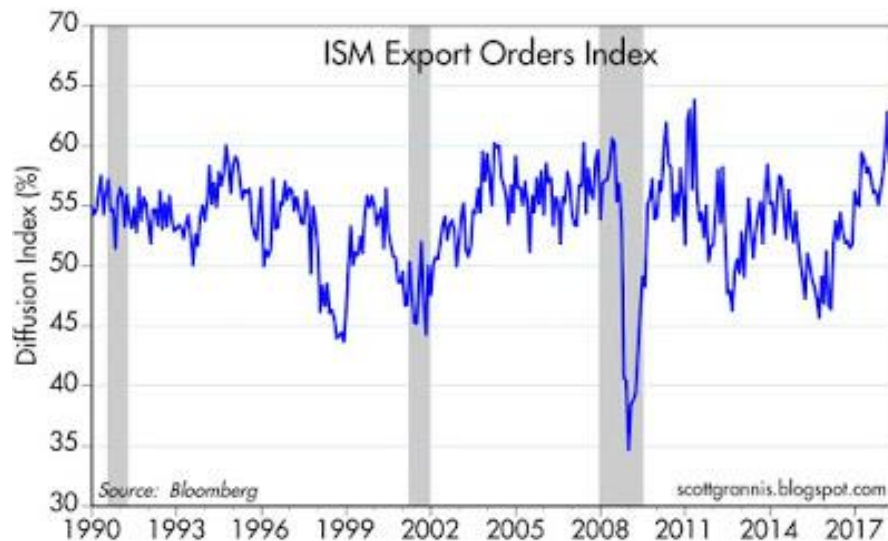


Chart #3 shows that a significant number of ISM respondents are experiencing rising prices. This could be a harbinger of higher inflation ahead, but it could only be a sign of generally strong global conditions.

Chart #3





Chart #4 shows that a meaningful number of manufacturing firms are planning to increase their hiring activity in the months to come. That, in turn, reflects a decent level of optimism on the part of industry executives.

Chart #4

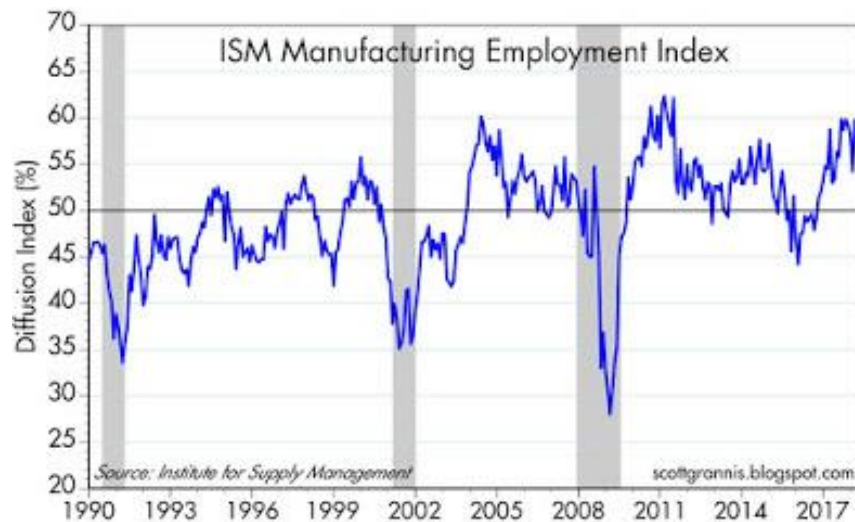


Chart #5 compares the US manufacturing index to a similar index/survey of Eurozone manufacturing firms. Both have been quite strong of late, but conditions in the Eurozone appear to have softened a bit in recent months. Eurozone stock markets have been underperforming their US counterparts for many years, however, so somewhat weaker conditions in Europe are not "new" news.

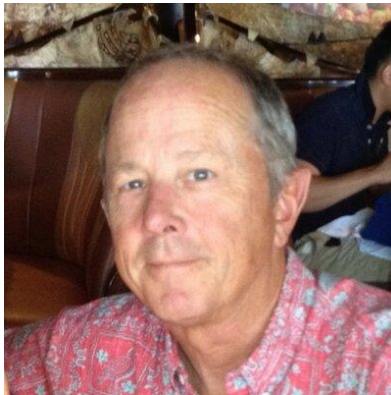
Chart #5





BW: See ABOUT THE AUTHOR below.

ABOUT THE AUTHOR



Scott Grannis was Chief Economist from 1979-2007 at Western Asset Management, a Pasadena-based, global manager of fixed-income portfolios for institutional clients.

He now enjoys keeping up on economics, markets, and politics from his condo overlooking Calafia Beach on the southern California coast, where he likes to think that he is immune to Wall Street group-think.

Married for 45 years to his Argentine wife, Norma, he has four children and five grandchildren (four boys and one girl).

He is a believer in supply-side economic theory, as practiced by his mentors, the late Jude Wanniski, Art Laffer, and Larry Kudlow. John Rutledge is another of his mentors, from the days that they worked together at Claremont Economics Institute.

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