

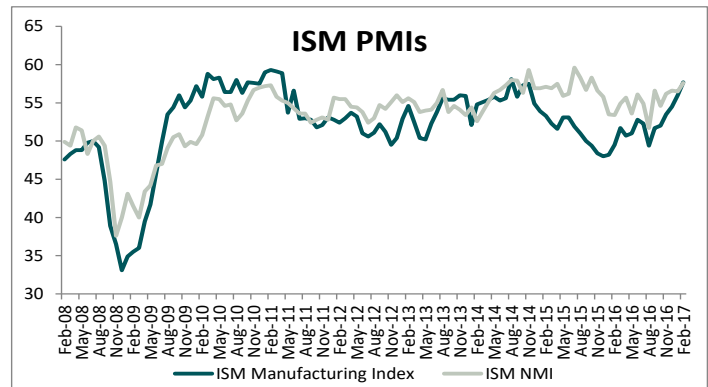
March 2017

Manufacturing resurgence continued across the globe, services remain at healthy levels

- The U.S. manufacturing sector appears to be staging a resurgence following the strong February ISM report. The ISM Manufacturing Index jumped to 57.7 in February, up from 56.0 in January, led by a strong rise in new orders which increased from 60.4 to 65.1. The gauge on employment fell back slightly during the month, but the report showed pretty broad based strength and certainly highlights how the combination of strengthening global demand and fading USD strength has boosted manufacturing.
- Based on data released from Markit, global manufacturing continued to expand at a strong pace in February with rising PMIs from all the major developed and emerging market countries. The Markit Global Manufacturing PMI rose to 52.9 in February, its highest level since May 2011. Japan’s PMI hit a multi-year high, Eurozone activity remained at solid levels, and China’s manufacturing recovery shows little sign of slowing. This level of manufacturing data has historically signaled a global economy growing at a 4% pace.
- The February employment report was strong with 235K new jobs added to the economy and an unemployment rate that fell from 4.8% to 4.7%. Wage growth rebounded as well to a solid 2.8% annual rate. The Fed needs to raise rates this week and continued employment strength could solidify a move in June.
- The ISM Non-Manufacturing Index increased from 56.5 in January to 57.6 in February (16 month high). Business activity jumped to a six-year high of 57.6 in February, from 60.3, new orders improved to 61.2, from 58.6 and employment edged up to 55.2, from 54.7. The strong recent reports on manufacturing/services support a March rate hike by the Fed and although most estimates for Q1 GDP growth are in the 1.5-2% level, the February ISM reports point to a U.S. economy that is accelerating.

Eurozone showing signs of life

- The Eurozone Composite PMI hit a 70-month high in February with the reading surging to 56.0 from 54.4



Source: Institute for Supply Management

in January. Activity/growth momentum picked up across both manufacturing and services, but the real story was strength in manufacturing new orders and exports. All of the big four countries reported stronger levels of activity output in February led by Spain (18 month high), Germany (34 month high), France (69 month high) and Italy (14 month high). The broad based gains in the Eurozone PMI data is consistent with 0.6% quarterly economic growth. The uptick in growth combined with rising inflation and falling unemployment could lead to sooner than anticipated QE tapering by the ECB. A 9.2% jump in energy prices fueled the 2% headline inflation figure reported for January (core CPI remained unchanged at 0.9%). The unemployment rate of 9.6% was unchanged last month from December, but it has fallen significantly from the 10.4% level reported in January 2016.

Sustained recovery taking hold in China, Brazil cuts rates again, & India shocks the world with its recent GDP print

- China’s official manufacturing index rose to 51.6 in February, beating the 51.1 expectation and the 51.3 reading reported in January. The Caixin Manufacturing Index increased to 51.7 last month, up from 51.0 in January. China’s manufacturing sector has seen a sustained recovery since the second half of 2016, but it has been led by record credit growth, infrastructure spending and a booming housing market. Recent data suggest that exports are

