ECONOMIC RESEARCH

The NewsLine

March 21, 2016

MACROECONOMICS | FINANCIAL MARKETS | ECONOMIC POLICY | SECTORS

USA

Spring awakening in manufacturing sector?

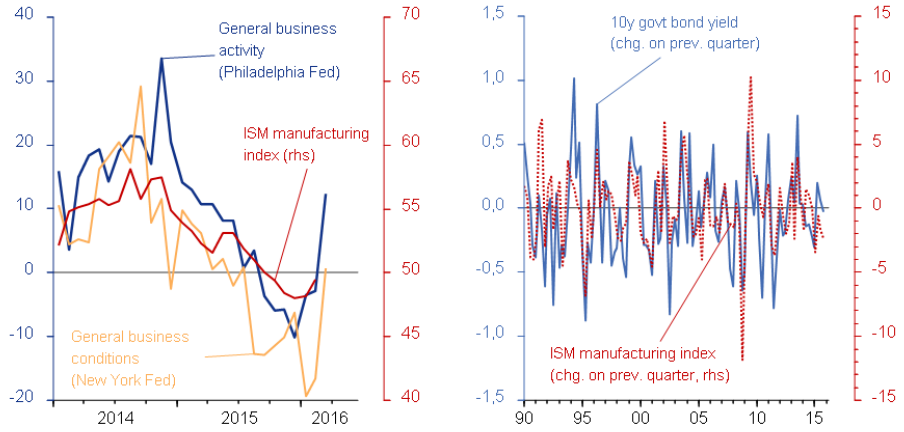
Thomas Hofmann
Phone +49.69.24431-4912
t.hofmann@allianz.com
Allianz SE
https://www.allianz.com/economic-research/en

Allianz Research
https://twitter.com/AllianzResearch

Overall, the plethora of recently published economic data support our view that, following the very subdued performance in the final quarter of 2015, the US economy is getting back into stride. A focus of concern in recent months was the manufacturing sector, battered by the strength of the dollar and the appreciable slowdown in capital spending in the energy sector. But sustained output losses have so far not materialized. Now there are indeed signs that the sector is over the worst. The national purchasing managers' index compiled by the Institute for Supply Management (ISM) is likely to bounce back discernibly. In such an environment, government bonds are likely to come under selling pressure.

The regional March survey results in the manufacturing sector published last week by the Federal Reserve Banks of New York and Philadelphia reveal a clear turnaround in the assessment of overall business conditions. For the first time since the late summer of last year, the percentage of firms reporting an improvement in business activity exceeded the percentage reporting a deterioration. The detailed returns on new orders, shipments etc. also improved sharply in some cases. Lumping these specific assessments into an overall index much as the Institute for Supply Management (ISM) does when calculating the (national) purchasing managers' index, we arrive at ISM-equivalent index levels of a good 51 in each case. In recent months these had stood in a range of 45-48 on average. Given the similarity in the underlying trend of the survey results, it therefore seems likely that the national ISM

index, which has been mired just below the 50-mark since October 2015, will climb back above the expansion threshold.



The performance of the purchasing managers' index is an important driver of events on the US financial markets. Viewed over longer periods, there is a clear positive correlation between changes in 10yr government bond yields and the changes in the ISM index. As a pivotal economic indicator it evidently influences key rate expectations on the markets and prompts portfolio shifts between government bonds and risky financial assets. Accordingly, in the event of a sustained improvement in this indicator, we are likely to see 10yr government bonds come under selling pressure.

These assessments are, as always, subject to the disclaimer provided below.

ABOUT ALLIANZ

Together with its customers and sales partners, Allianz is one of the strongest financial communities. About 85 million private and corporate customers insured by Allianz rely on its knowledge, global reach, capital strength and solidity to help them make the most of financial opportunities and to avoid and safeguard themselves against risks. In 2015, around 142,000 employees in over 70 countries achieved total revenues of 125.2 billion euros and an operating profit of 10.7 billion euros. Benefits for our customers reached 107.4 billion euros.
This business success with insurance, asset management and assistance services is based increasingly on customer demand for crisis-proof financial solutions for an aging society and the challenges of climate change. Transparency and integrity are key components of sustainable corporate governance at Allianz SE.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed or implied in such forward-looking statements.
Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends, (v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the euro/US-dollar exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures, and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.