

US ISM Says Keep On Hiking. Now Onto Nonfarm

ISM manufacturing, November:

Actual: 59.3

Scotia: 57.0

Consensus: 57.5

Prior: 57.7

- The domestic economy's strengths outweigh anything of concern in terms of the external side of the US picture. That's the main message coming from this ISM update. The secondary message is that ISM outperformed what regional surveys like the Philly and Richmond metrics were indicating in advance. Now it's onto nonfarm as the other—and bigger—of the week's two marquee macro reports.
- New orders accelerated from 57.4 in October to 62.1 in November. All of that came through the domestic order book as new export orders continue to grow softly at an unchanged pace (52.2). The huge size of the domestic US economy is the driving force here and in light of the marginal share of total US consumption that is represented by the Chinese goods that have been hit by tariffs (about 4% of goods and services). See the chart below.
- Employment growth accelerated to a reading of 58.4 (56.8 prior).
- Prices paid decelerated, but this could be temporary. The subcomponent fell to 60.7 from 71.6 in October. This likely reflects the slide in energy prices. If that proves to be somewhat temporary—pending OPEC on Thursday and thereafter—then we could see this price signal improve but it's a lagging or coincident indicator of price pressures at best and of no consequence to inflation forecasters.
- Production accelerated to 60.6 from 59.9 previously.
- The inventory back-log grew at a slightly faster pace (52.9, 50.7 prior) but manufacturers' assessment of customer inventories continues to shrink (41.5 in November). This signals that the tariff run-up is over as the manufacturers' inventory gauge had peaked at 55.4 in August and has been falling since. In turn, that suggests a Q4 inventory drag on GDP after inventories contributed 2.3% to Q3 GDP. This would require stabilization or reversal of the ongoing inventory building in retail and wholesale that may be lagging the manufacturing side of the picture.

CONTACTS

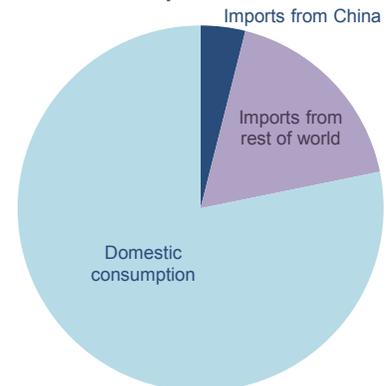
Derek Holt, VP & Head of Capital Markets Economics

416.863.7707

Scotiabank Economics

derek.holt@scotiabank.com

US Consumption: Domestic vs. Import Sources



Sources: Scotiabank Economics, US Census Bureau.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including, Scotiabanc Inc.; Citadel Hill Advisors L.L.C.; The Bank of Nova Scotia Trust Company of New York; Scotiabank Europe plc; Scotiabank (Ireland) Limited; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Scotia Inverlat Casa de Bolsa S.A. de C.V., Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorised by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia’s regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorised by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., and Scotia Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.