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.

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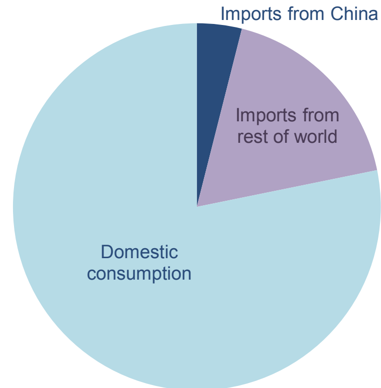
US Consumption: Domestic vs. Import Sources



Sources: Scotiabank Economics, US Census Bureau.