

Strong US ISM Manufacturing Adds To Evidence Of A Robust US Economy

U.S., ISM-manufacturing, January:

Actual: 56.6

Scotia: 54.5

Consensus: 54.0

Prior: 54.3 (54.1 prior)

- The US economy is looking mighty strong this morning on the back of a solid beat through ISM and earlier jobs numbers plus a bullish construction spending report buried behind ISM. Nothing here plays to recession hype or extended pause talk. The latter remains event-focused in my view (Brexit, shutdown, ceiling, US-China and Mueller) and requires assuming the worst. It is important to emphasize that baseline tracking of the US economy remains strong into the two tailed geopolitical risks. The US Treasury 2 year yield is up by about 6bps in the wake of all of the data, the USD is stronger on a DXY basis, and the S&P500 is up by just over ¼% thus far as stocks positively interpret strong data and a Fed pause (for now...). My view remains that markets and the Fed may have over-reacted to the December dip that itself could have reflected distortions such as the unwinding of a temporary overshoot due to front-running order books ahead of tariffs last Fall.
- ISM beat consensus expectations by 2.6 points. The beat is consistent with improvements in regional surveys as previously explained and they were why I went above consensus for ISM.
- The underlying details were all constructive. New orders jumped by almost seven points to 58.2. Production jumped by 6.4 points to 60.5. Only some of that went into inventories that increased to 52.8 (51.2 prior). The rise in new orders was due to domestic orders as the new export orders category slipped a point to 51.8. The sheer size of the domestic economy overwhelms the trade picture.
- Employment slipped a half point to 55.5 but that's close enough for horseshoes. Trend job growth signals from the modest manufacturing sector's role in the labour market remain positive.
- Prices paid decelerated by five points to 49.6 but that largely reflects what has already been seen in higher frequency commodities including the decline in WTI from over US\$75 in early October to a low of US\$42.8 in late December before climbing a little again to over US\$54 now. ISM prices paid is highly correlated with movements in gasoline prices.
- Note that in a separate release, construction spending jumped by 0.8% m/m and the prior month was revised from a small contraction of -0.1% to a small rise of 0.1%. Residential spending jumped 3.4% m/m while nonresidential spending fell 1%. This will add to nowcast Q4 GDP growth estimates and combined with ISM signals take us back toward 3% GDP growth.

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