

US ISM Manufacturing Disappoints, But Distorted?

U.S., ISM-manufacturing, April

Actual: 52.8

Scotia: 54.9

Consensus: 55.0

Prior: 55.3

- The latest ISM-manufacturing report was soft on headline and underlying details. It signals a manufacturing sector that is still experiencing growth, but barely, and on a decelerating profile since late last summer. It remains plausible that we're coming off the acceleration into mid-2018 that was partly fed by front-running orders and dampened by US trade policy since. Bear in mind loose connections at best between ISM sentiment components and actuals like employment and inflation.
- One point of uncertainty is the extent to which Boeing weighed on ISM. They had 44 plane orders in March and have not released orders for April yet, but it's reasonable to expect them to be soft. Transportation was a downside across multiple components of the full ISM report. In fact, transportation was one of only three sectors to see a decline in new orders while 14 of 18 saw growth ([here](#)).
- Since the Fed is the main event today, does ISM matter? The chart below shows a loose connection between ISM-manufacturing and fed funds at best over time. As the manufacturing sector has diminished as a share of GDP, the connection has become even more tenuous.
- Underlying details were soft. New orders fell to 51.7 (57.4 prior) and signal low growth.
- Employment eased to 52.4 (57.5 prior).
- Prices paid fell to 50 (54.3 prior) but this isn't the greatest gauge of actual inflation pressures by any stretch.
- Also note that construction spending fell by 0.9% m/m with a mild downward revision to 0.7% (1.0% prior). Nevertheless, the ingredients for at least the housing component to recover in Q2 are already in place. New home sales have been ripping higher since the start of the year. That should translate into starts and construction spending over coming months.

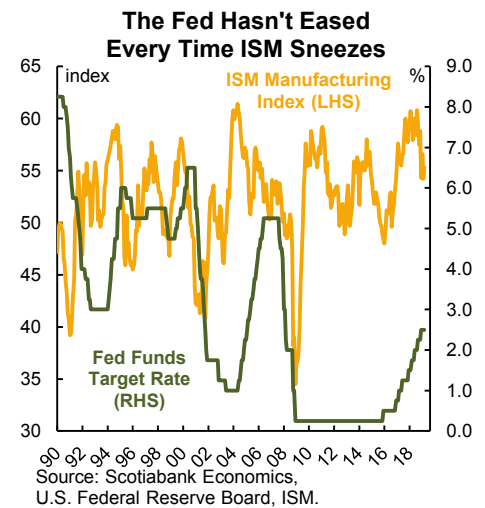
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