

US ISM: Hardly Bringing Manufacturing Home

- ISM manufacturing disappointed expectations...
- ...largely on softer employment, prices and order backlogs...
- ...while new orders are stabilizing
- This hardly qualifies as bringing manufacturing home to America
- Construction spending also fell...
- ...primarily due to public sector investment
- The implications for the Fed are marginally more dovish...
- ...and lean at this point toward at least one more rate cut

ISM-manufacturing, July, SA:

Actual: 51.2

Scotia: 51.5

Consensus: 52.0

Prior: 51.7

Moving Away, Gone from America. Welcome to the new MAGA and so much for bringing manufacturing back home. ISM-manufacturing disappointed expectations and the underlying details were somewhat mixed. The headline gauge fell to its weakest since before the US Presidential election in November 2016 by hitting its lowest since September of that year (chart 1). The deterioration in US manufacturing prospects disproves the claim that the US is immune to the effects of the trade troubles it has caused for the world economy.

At the margin, this is an incrementally more dovish signal for the Fed. It marginally leans toward at least one more rate cut, especially as the dollar has firmed post-Fed and further crimped US manufacturing competitiveness. This is, however, principally a synchronous global deceleration in the manufacturing sector (chart 2) that is significantly due to the Trump administration's protectionist trade policies. By hammering China and fomenting instability across global business expectations, export prospects of European and US businesses have also been impaired. Tariffs, in short, have proven to be a disaster for US manufacturers through direct and indirect effects.

Chart 3 depicts the ISM components. The new orders subcomponent improved by 0.8 to 50.8 which signals marginal expansion.

Employment cooled to 51.7 from 54.5 which is a bearish but relatively minor signal ahead of tomorrow's nonfarm payrolls.

Prices paid cooled to 45.1 from 47.9. At the margin, the prices paid component indicates softer pricing power in the US economy that is connected to PCE inflation expectations, but it doesn't really reveal much by way of additional information compared to what we already knew about oil prices (chart 4).

The order backlog is vapourizing, as it fell to 43.1 from 47.4 and 53.9 just back in April.

Also note that US construction spending fell by 1.3% m/m (consensus +0.3%, prior -0.5% revised from -0.8%). The big decline in construction spending will motivate small downward revision risk to Q2 GDP growth.

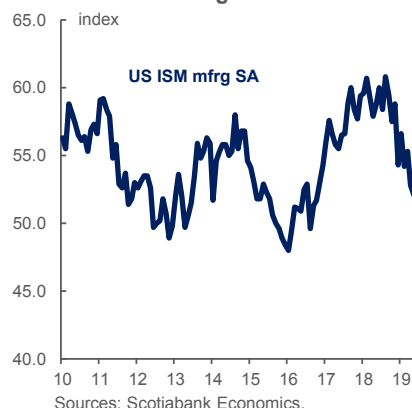
CONTACTS

Derek Holt, VP & Head of Capital Markets Economics
416.863.7707

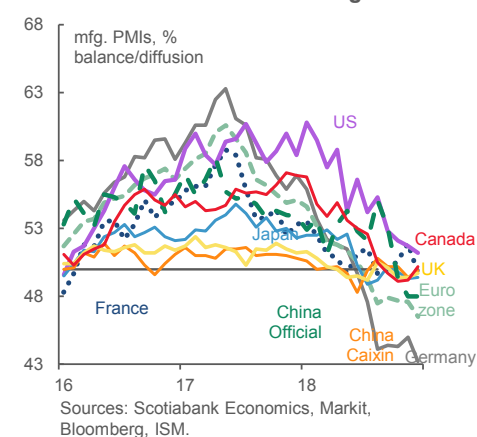
Scotiabank Economics

derek.holt@scotiabank.com

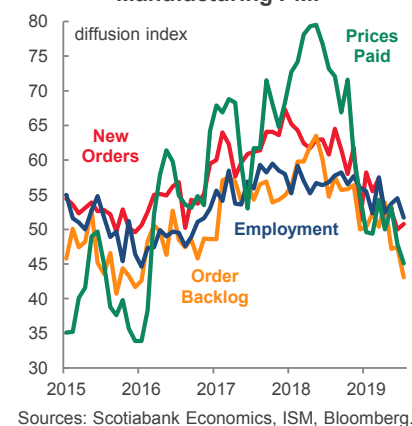
You Call This Bringing Manufacturing Back Home??



Global Manufacturing



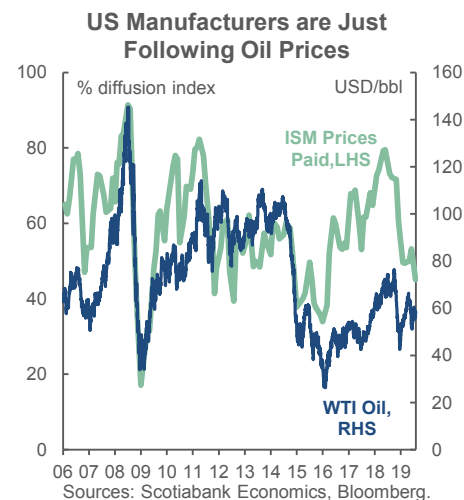
Select Components of ISM Manufacturing PMI



Interestingly, much of the downside to construction spending was in the public sector. Public spending was down 3.7% m/m, while private spending was down only 0.4%. Within public spending, residential construction fell 2.7% and nonres fell 3.7%.

Overall this is less about confidence damaging hits to the private sector, and more about retrenchment in the public sector construction spending components.

Overall, the combined ISM and construction readings lean against bringing manufacturing home and driving infrastructure spending to benefit the economy.



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