

Datanote: US Empire State Survey, April

In one line: Too volatile to make us fear a renewed downturn in manufacturing.

- The Empire State manufacturing index rose to -14.3 in April, from -20.9 in March, but undershot the consensus, -5.0.

The failure of the headline business conditions index to rebound fully

in April, after its 19-point plunge in March, is probably not a cause for alarm. It recently has been a woeful guide to the nationwide ISM manufacturing index, which rose slightly above 50 in March for the first time since September 2022, despite the Empire State's plunge. The Empire State survey's limited geographical coverage is a permanent weakness, but the increased volatility of the survey lately perhaps suggests that the response rate has fallen, increasing the risk of a misleading steer. Only when

viewed collectively do the regional Fed manufacturing surveys say anything informative; the Empire State is the first of the bunch each month, so we will await the others before reaching firm conclusions on the manufacturing sector's performance. Our base case remains that manufacturing output will be range-bound near its current level for the rest of this year, due to ample business inventories and weak external demand, before recovering modestly next year on the back of lower long-term interest rates.

Meanwhile, the pick-up in oil prices likely explains why the prices paid index increased to an 11-month high of 33.7 in April, from 28.7 in March. But manufacturers appear to be hesitating to hike their prices, due to muted demand. Indeed, the current prices received index edged down to 16.9, from 17.8, thus remaining well below its 2021-to-23 average, 55.4. Core goods CPI inflation, therefore, likely will remain near the -0.7% March rate over the rest of this year.

