# Datanote: US NFIB Survey, June

**In one line: Inflation pressures reassuringly absent, given the surge in shipping costs.**

**- The Empire State manufacturing index increased to -6.0 in June, from -15.6, above the consensus, -11.3.**

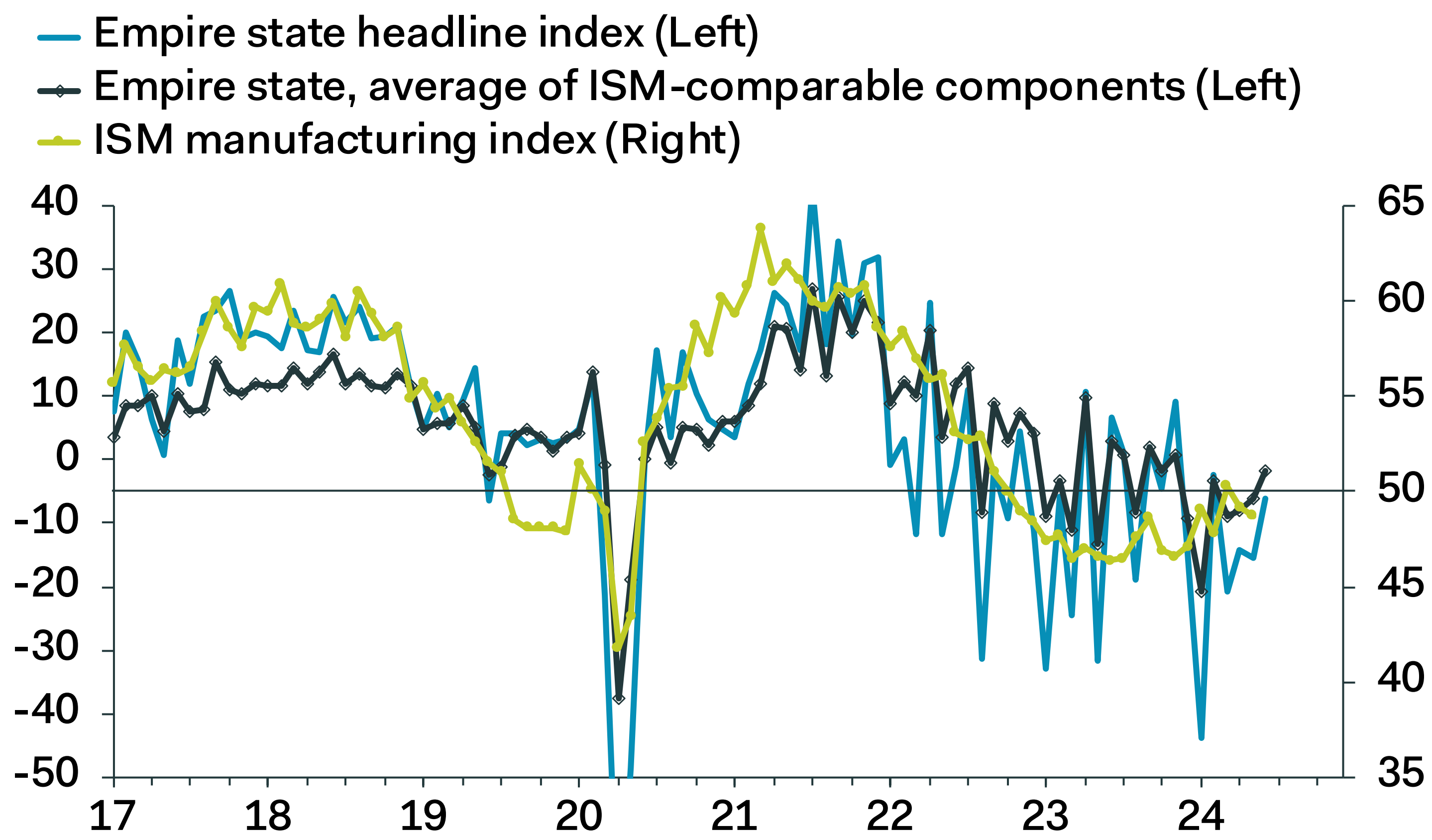
The pick-up in the headline index of the Empire State survey in June adds to the list of indicators pointing to a gradual recovery in the manufacturing sector. The survey's shipments and new orders indexes increased to their highest levels since last November and September, respectively, though both remained slightly below their 2001-to-19 averages. The weighted average of the survey's components which are comparable to those in the ISM survey also increased to its highest level since last November, consistent with the ISM manufacturing index edging above 50.

That said, it's probably wise to treat

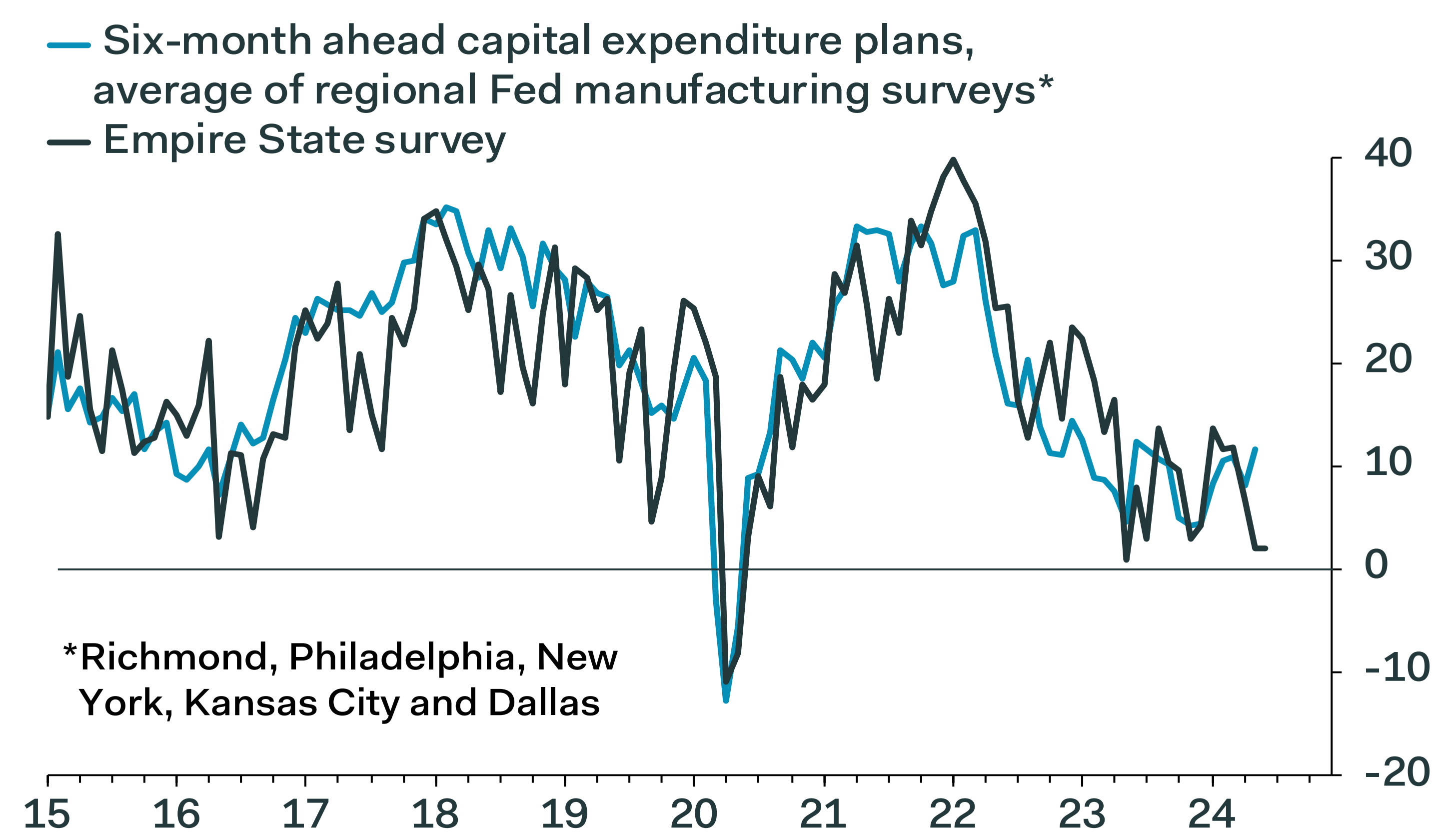
the Empire State survey skeptically, given its narrow geographical coverage and its heightened volatility lately, which hints that the response rate to the survey has fallen. The regional Fed manufacturing surveys usually only say anything informative when they are taken together; the Empire State is the first of the bunch each month, so we will await the others before reaching firm conclusions on the manufacturing sector's current performance. Our base case remains that any recovery in manufacturing output this year will be sluggish, due to ample business inventories and weak external demand, though lower interest rates might boost the sector next year. In any case, the manufacturing sector is simply too small—it accounts for only around 11% of GDP—to make a meaningful difference to the rate of overall GDP growth. We continue to expect year-over-year growth in GDP to ease to about 1.3% in Q4, from 2.9% in Q1, as slowing consumer demand takes the wind out of the sails of the services sector.

At the margin, the drop in the employment index to -9—its lowest level since March 2023—from -6 in May provides another signal that growth in payrolls is slowing, though note that the manufacturing sector accounts for only 9% of total payrolls. Meanwhile, the future capex index held steady at +2, below its +8 average of the previous 12 months. All told, then, manufacturers' hiring and capex decisions suggest they expect only a sluggish recovery in demand ahead.

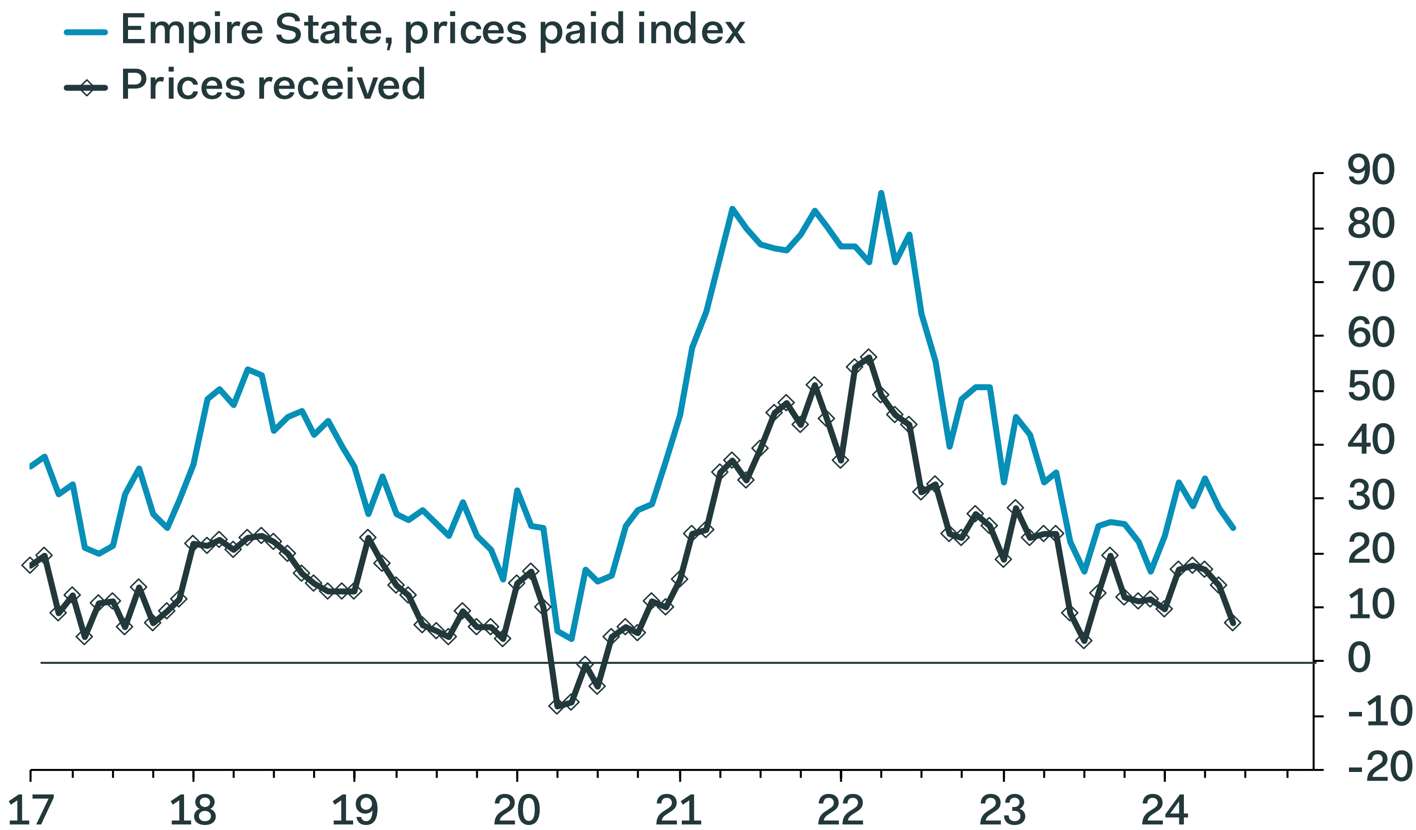
Meanwhile, the fall in the prices paid index to 24.5 in June, from 28.3 in May, suggests that the recent jump in the cost of international shipping has had little impact so far on manufacturers' overall costs. Admittedly, import prices lag shipping costs, which have only recently surged; according to Drewry, the cost of shipping a container from Shanghai to New York has surged by nearly 30% over the last four weeks and by 250% since the end of last year, though it is still just half the September 2021 peak. But even if import prices eventually surge, firms will struggle to pass on the additional cost to consumers, given slowing final demand. Indeed, the current prices received index fell to 7.1 in June, from 14.1 in May, and was only marginally above its 2001-to-19 average, 5.9. Accordingly, we think that core goods ex-autos CPI inflation still will be near May's -0.8% rate at the end of this year.



Empire state headline index (Left)
Empire state, average of ISM-comparable components (Left)
ISM manufacturing index (Right)
40
30
20
10
0
-10
-20
-30
-40
-50
65
60
55
50
45
40
35
17
18
19
20
21
22
23
24

Six-month ahead capital expenditure plans, average of regional Fed manufacturing surveys*
Empire State survey
40
30
20
10
0
-10
-20
*Richmond, Philadelphia, New York, Kansas City and Dallas
15
16
17
18
19
20
21
22
23
24


Empire State, prices paid index
Prices received
90
80
70
60
50
40
30
20
10
0
-10
-20
17
18
19
20
21
22
23
24