

Datanote: US ISM Manufacturing Survey/ JOLTS

In one line: Fade the stagflation doomsayers

- The ISM manufacturing index dipped to 49.2 in April. from 50.3, a bit below the consensus, 50.0.
- The JOLTS quits rate fell to 2.1% in March, from 2.2% in February.

The drop in the headline ISM manufacturing index last month

echoes the fall in the S&P Global US manufacturing PMI, also to below the 50 mark, raising doubts about whether the manufacturing sector will break out of its current slump anytime soon. A bit more than half of the drop in the headline index was due to a 3.3-point fall in the production index, though this reversed only part of the 6.2-point jump in March. The production index is an unreliable guide to actual manufacturing output in the short term, but its current level is consistent with output continuing to stagnate.

The new orders index also dipped, by 2.3 points; that's disappointing, given that a rally in this index throughout 2023 raised hopes for a real manufacturing upturn. The employment index, by contrast, ticked up, but only by 1.2 points, to 48.6. The current level of the employment index is consistent with modest gains in manufacturing employment, but the relationship with the hard data is variable. And, in any case, at less than 9% of total employment, the

manufacturing sector is too small to move the dial at the aggregate level.

We doubt that the manufacturing sector is set for a renewed downturn. But it is hard to envisage a sharp recovery from here while long-term interest rates remain very high, weighing on investment spending, and external demand also appears relatively weak. Note, though, that stagnant manufacturing output has not stopped the overall US economy from growing at a very brisk pace on

average over the past couple years.

Combined with the slip in the headline index below 50, the jump in the prices paid index of the ISM survey to a two-year high of 60.9, from 55.8, will prompt some further cries about the US slipping into stagflation, fears we think can safely be ignored. As we often point out, the ISM prices paid index tends closely to track commodity prices, which have generally risen in recent months. The longer-run relationship between the prices paid

index and core goods inflation is pretty weak, largely because labor is a much bigger driver of finished goods prices than commodity prices. In any event, the average level of the supplier delivery times and order backlogs index has been a far better indicator of underlying goods inflation since early 2020. This measure slipped back further in April, and points to continued disinflation in goods prices in the months ahead.

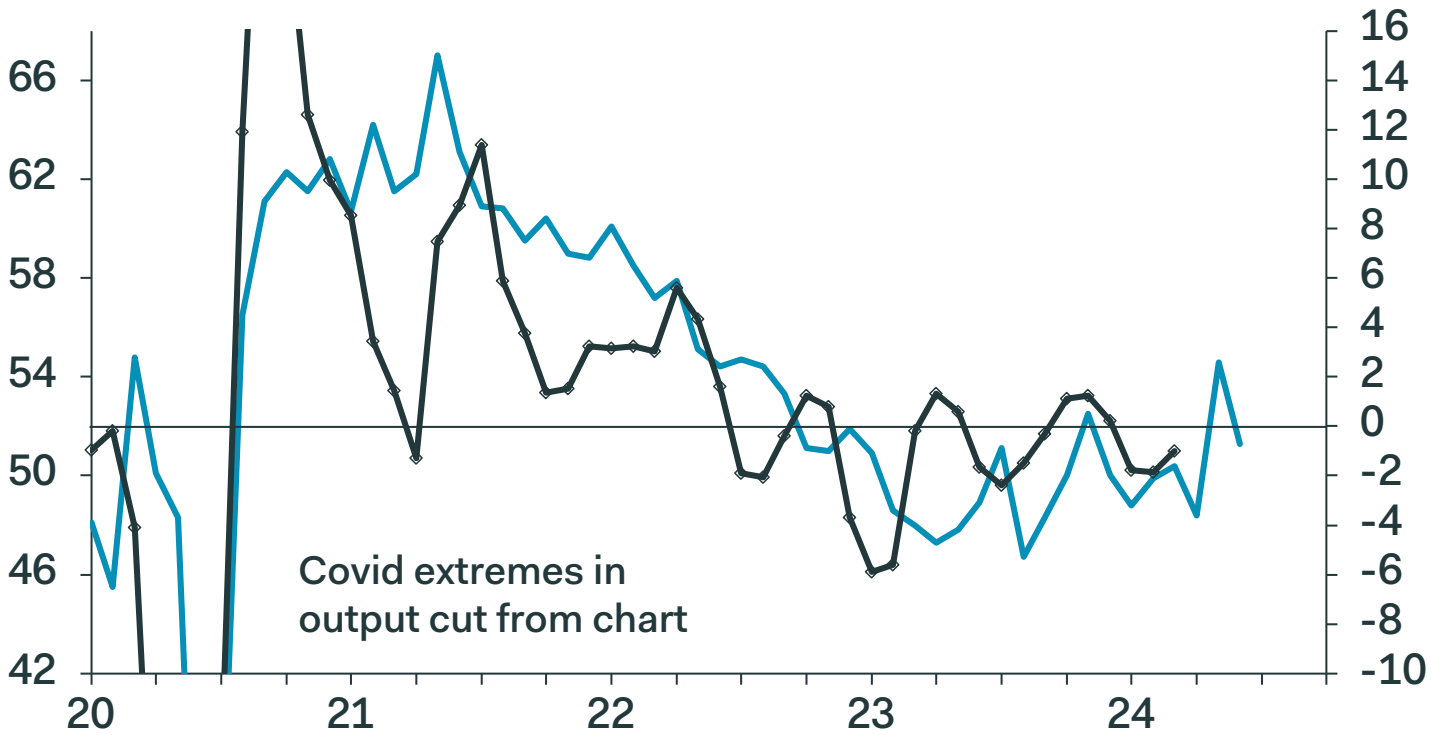
Elsewhere, the decline in the JOLTS

measure of job openings to 8,488K in March, from 8,813K in February, adds to the growing mosaic of indicators signalling that labor demand is continuing to soften. The drop in openings was most pronounced among small businesses, suggesting that the decline in hiring plans signalled in the NFIB survey is starting to materialise, with ominous implications for payrolls growth in Q2.

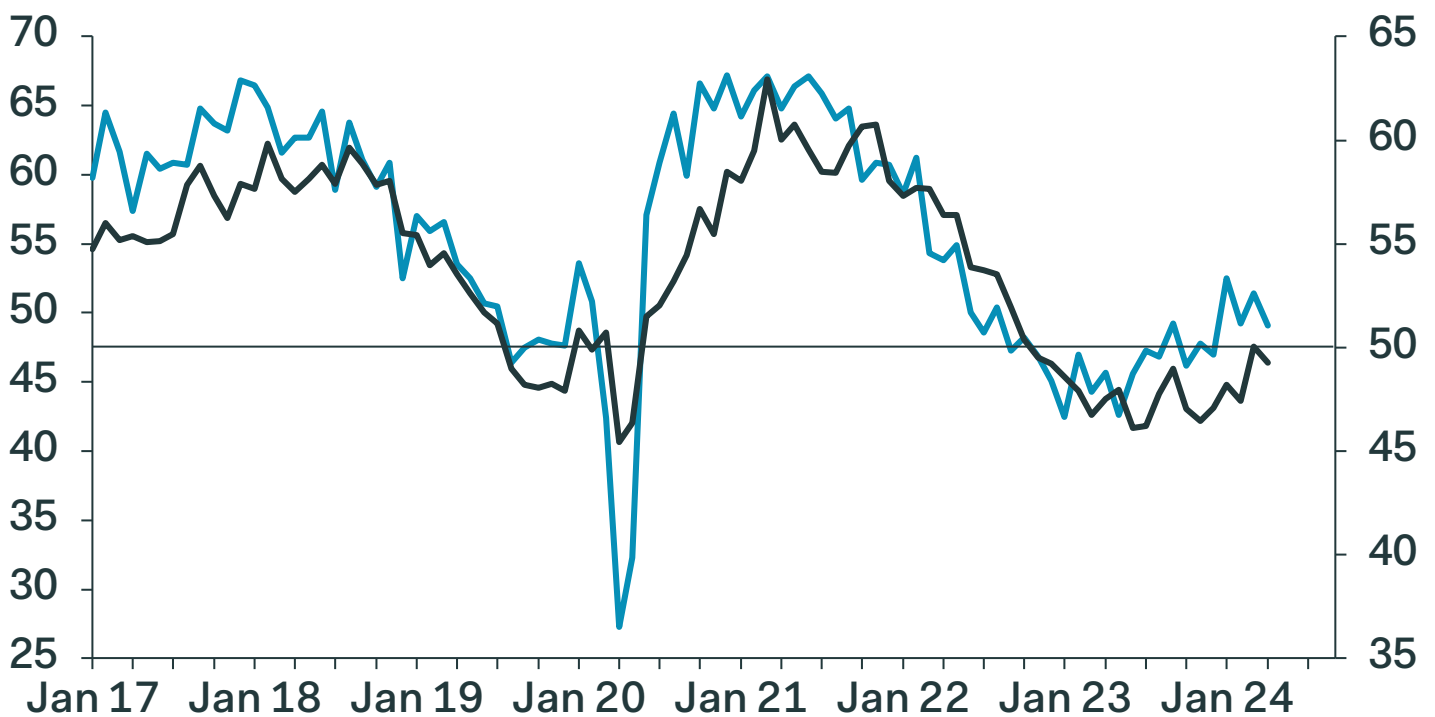
Meanwhile, the drop in the quits rate provides reassurance that the Q1 pick-

up in growth in the Employment Cost Index—the Fed’s preferred measure of wage growth—will prove to be just a blip. At 2.1%, the quits rate points to a slowdown in year-over-year growth in the private sector wages and salaries component of the ECI to about 3.3% in Q3, from 4.2% in Q1. With trend growth in productivity currently between 1.5% and 2.0%, the chances of ingrained above-target inflation look remote.

- ISM manufacturing production index, adv. two months (Left)
- Manufacturing output ex-autos, 3m/3m annualized, % (Right)

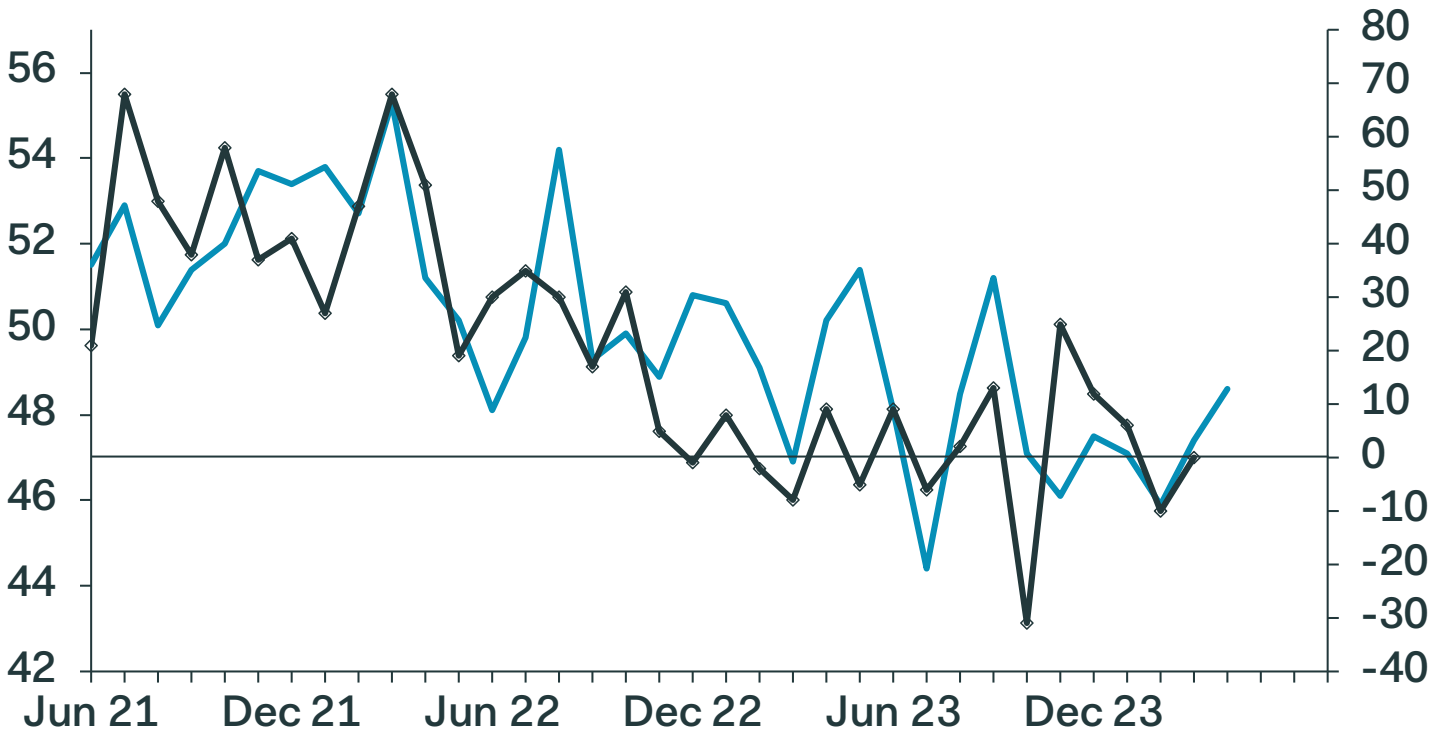


- ISM manufacturing new orders (Left)
- ISM manufacturing excluding orders (Right)



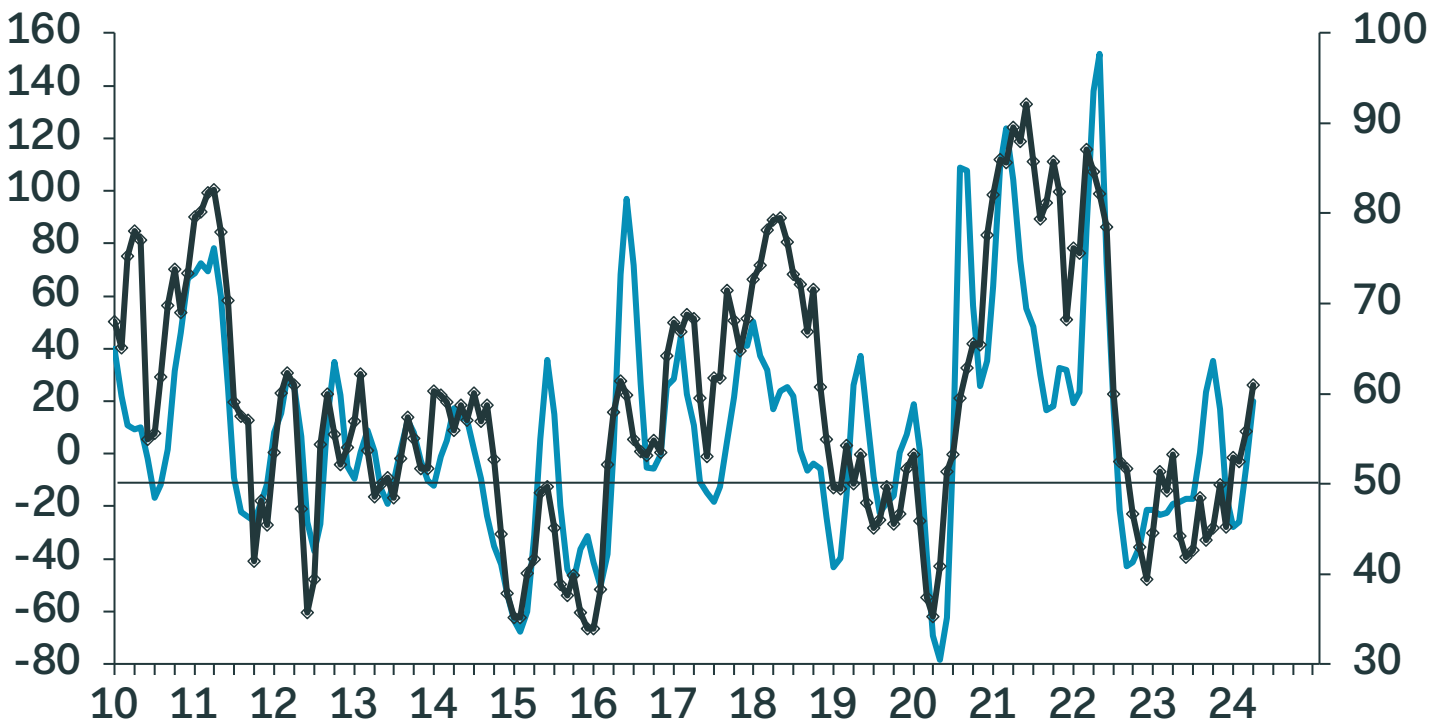
— ISM manufacturing employment index (Left)

— Manufacturing payrolls, m/m change, thousands (Right)



— S&P/GS Commodity Price Index, 3m/3m%, annualized (Left)

— ISM manufacturing prices paid index (Right)



— ISM manufacturing, ave. of order backlog and delivery times (Left)
 —◆— CPI core goods ex-autos, 3m/3m%, annualized (Right)



— Quits rate, quarter average, advanced two quarters (Left)
 —◆— ECI private sector wages and salaries, y/y% (Right)

