Datanote: US ISM Manufacturing Survey, June

In one line: Still stagnating, no recovery in sight

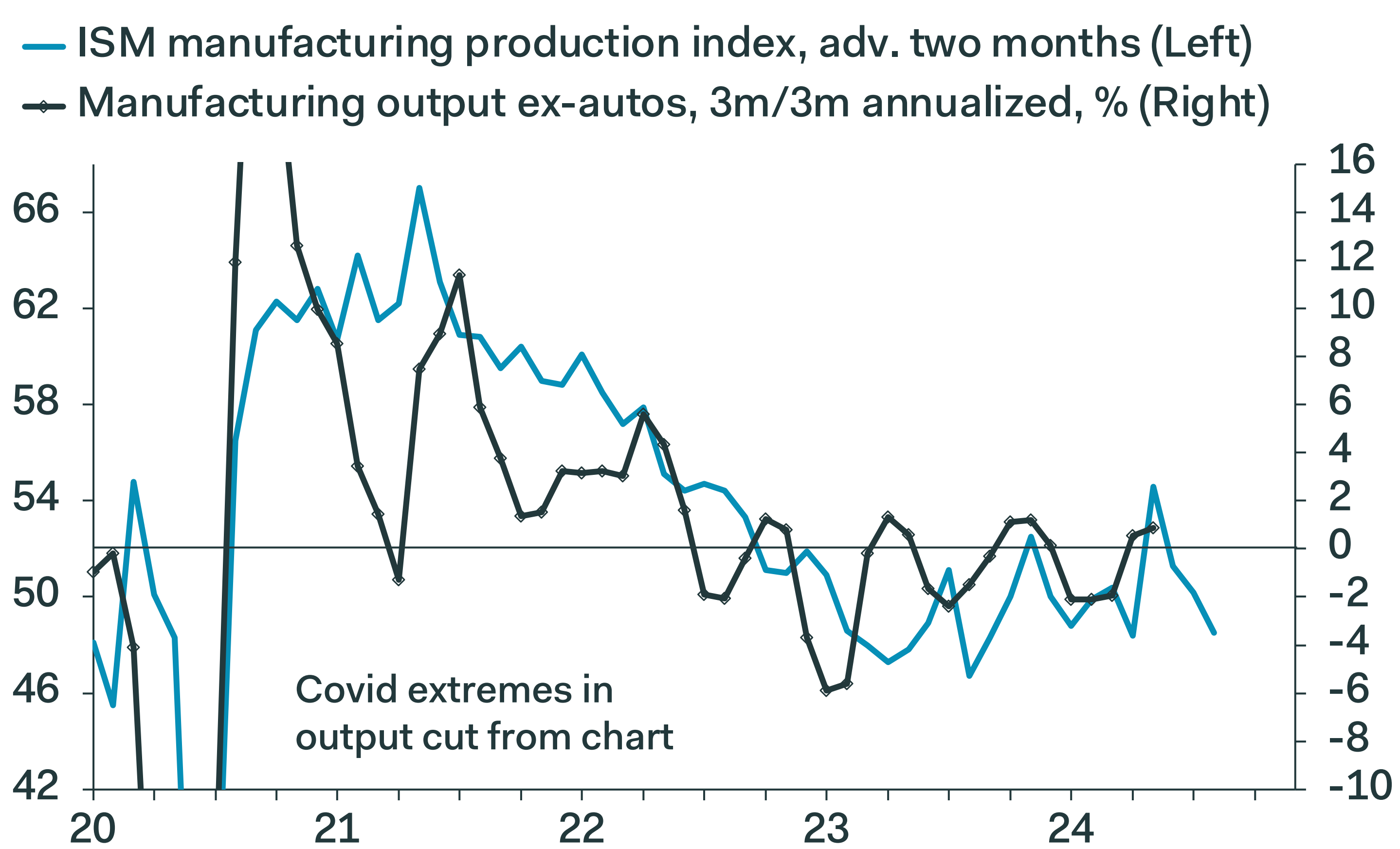
- The ISM manufacturing index dipped slightly to 48.5 in June, from 48.7, below the consensus, 49.1.

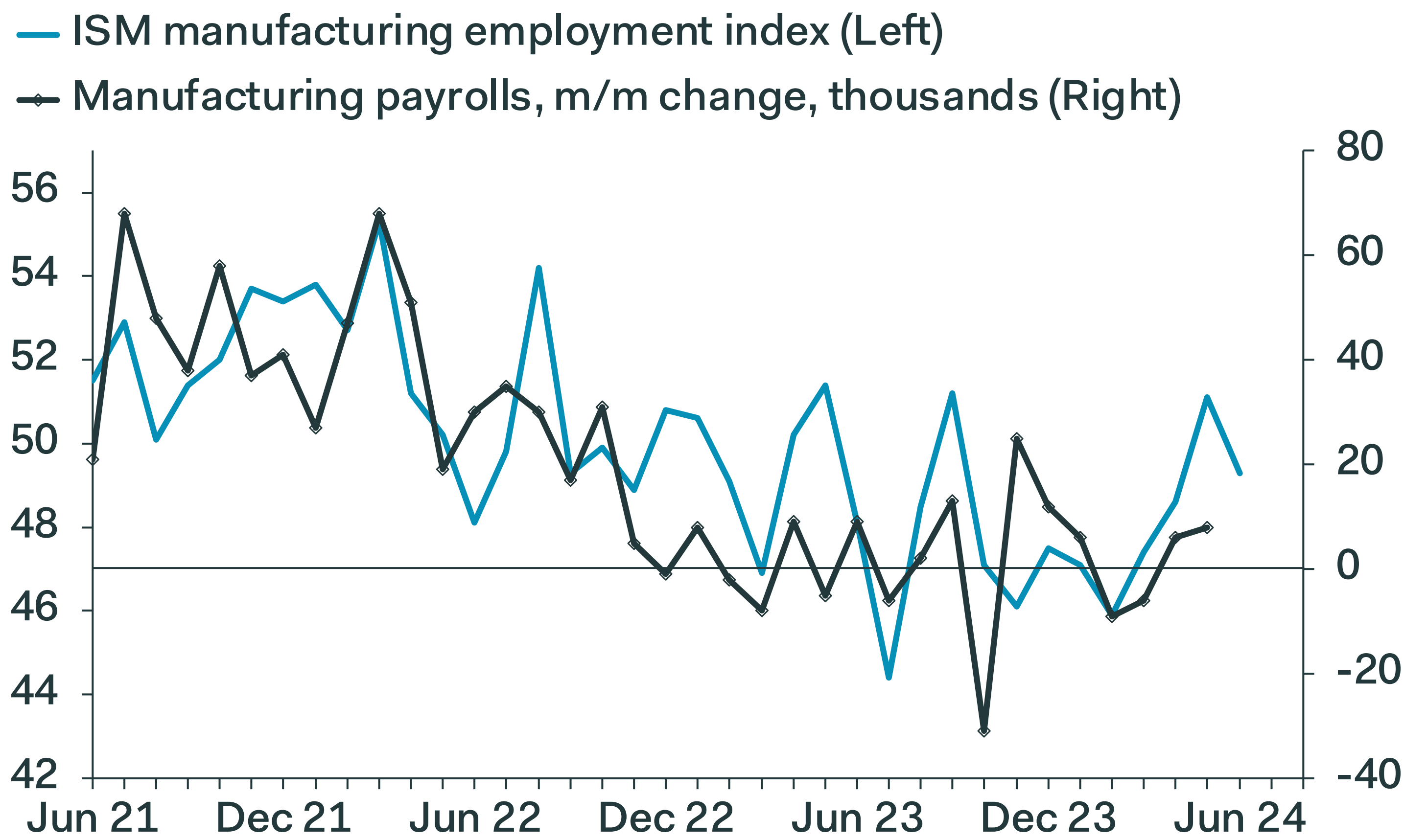
This is the nineteenth sub-50 reading in the past 20 months, consistent with the manufacturing sector at best treading water at a depressed level, rather than recovering meaningfully from the slump which began in mid-2022. The rebound in the new orders index, to 49.3 from 45.4, was encouraging. But this component is volatile and is still below 50; this rebound merely reflects the unwinding of an unexpectedly sharp fall in May. In any event, the bounce in new orders was more than offset by declines in the production, employment and inventories components. The dip in the production index, to 48.5 from 50.2, is consistent with output declining again in the near term. The drop in the employment index, meanwhile, to 49.3 in June, leaves it consistent with a gain of around 20K in manufacturing payrolls, as our third chart shows. But the relationship between the index and the payroll numbers is unreliable, and manufacturing in any case is too small a share of the economy to shift the dial at the national level. We are also inclined to dismiss the inventories index of the ISM, as it has been a poor guide to the hard data for some time.

We expect the manufacturing sector to remain weak over the next couple of quarters. The retreat in corporate bond yields since late last year, driven mostly by a sharp fall in credit spreads, seems to have provided some support to investment spending, but not enough to get manufacturing growing again. A much more significant loosening in financial conditions is required to change that. Meanwhile, the picture of recovering global demand, suggested by the recent upturns in the PMIs for small open economies such as Korea and Sweden, seems to be doing little for manufacturers in the US. The ISM survey's new export orders index dipped to 48.8 in June, from 50.6.

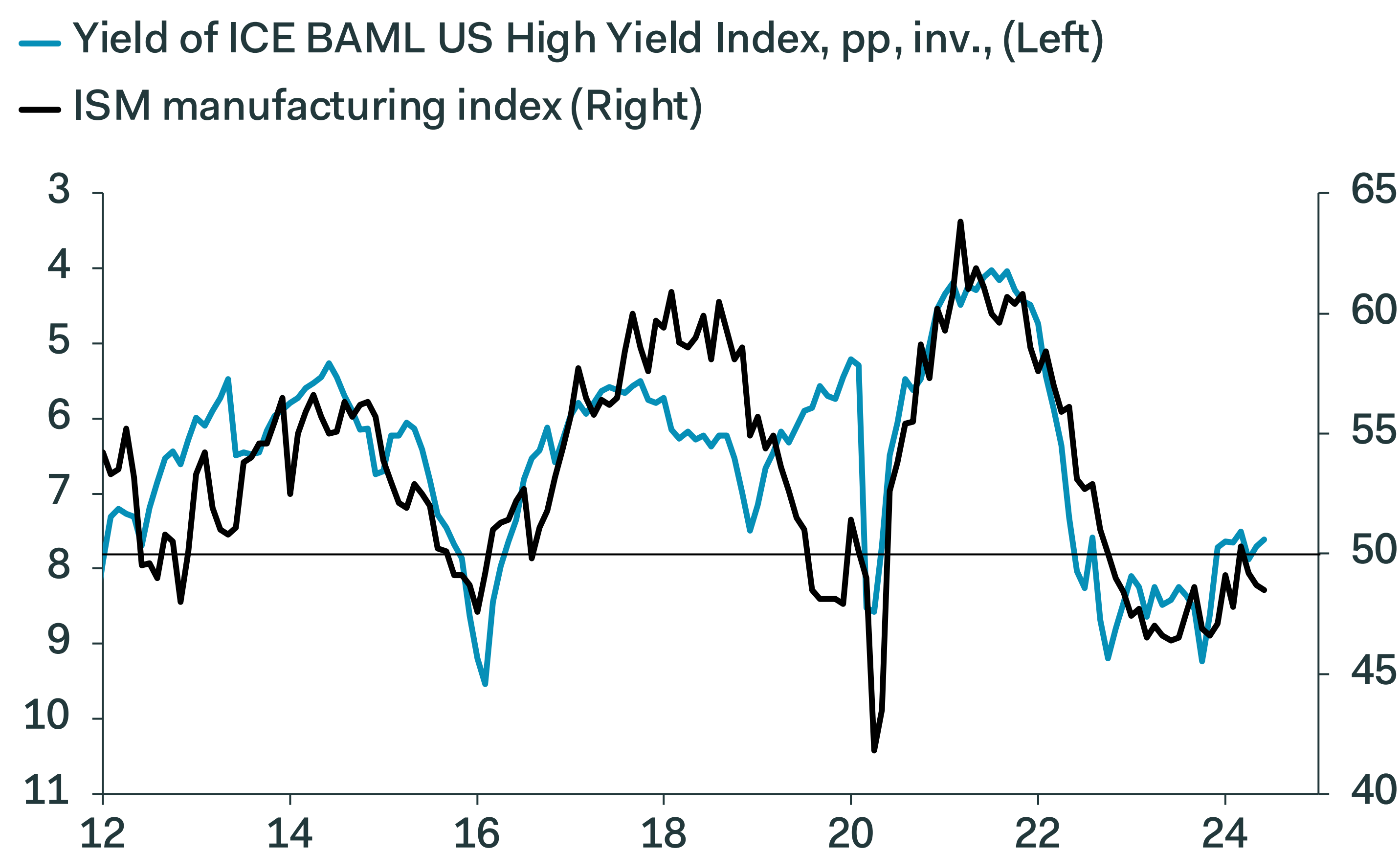
Elsewhere, the dip in the survey's prices index to 52.1, from 57.0, takes it to a six-month low and provides some reassurance that the surge in global shipping costs in recent months is still having a limited impact on manufacturers. That said, that the prices index of the ISM surveys tends to shift mostly in line with commodity prices, which fell back slightly last month, rather than shipping and other costs. The average of order backlogs and supplier delivery times index was a much better leading indicator of core goods inflation during the pandemic, and remains reassuringly subdued, consistent with some further deflation in goods prices.


ISM manufacturing new orders (Left)
ISM manufacturing excluding orders (Right)
70
65
60
55
50
45
40
35
30
25
65
60
55
50
45
40
35
Jan 17
Jan 18
Jan 19
Jan 20
Jan 21
Jan 22
Jan 23
Jan 24


ISM manufacturing production index, adv. two months (Left)
Manufacturing output ex-autos, 3m/3m annualized, % (Right)
66
62
58
54
50
46
42
16
14
12
10
8
6
4
2
0
-2
-4
-6
-8
-10
Covid extremes in output cut from chart
20
21
22
23
24



ISM manufacturing employment index (Left)
Manufacturing payrolls, m/m change, thousands (Right)
56
54
52
50
48
46
44
42
80
60
40
20
0
-20
-40
Jun 21
Dec 21
Jun 22
Dec 22
Jun 23
Dec 23
Jun 24



Yield of ICE BAML US High Yield Index, pp, inv., (Left)
ISM manufacturing index (Right)
3
4
5
6
7
8
9
10
11
65
60
55
50
45
40
12
14
16
18
20
22
24

ISM manufacturing, ave. of order backlog and delivery times (Left)
CPI core goods ex-autos, 3m/3m%, annualized (Right)
China-led boom in global commodity prices
Trade war
Order backlog/delivery times advanced by eight months
80
75
70
65
60
55
50
45
40
35
10
8
6
4
2
0
-2
-4
-6
06 07 08 09 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25