

Datanote: ISM Manufacturing Survey, February

**In one line: Disappointing but
better times probably lie ahead**

-February's ISM manufacturing survey dropped to 47.8, from 49.1, well below the consensus. 49.5.

The retreat in the ISM manufacturing survey is at odds with the marked increases in all five of the regional Fed's manufacturing surveys, and

the uptick in the S&P Global US Manufacturing PMI. A reversal of January's jump in the ISM new orders balance, which fell to 49.2 from 52.5, accounted for about half of the fall in the headline index, but the production, employment and inventories balances all slipped too. The headline index remains above its level in December, but has fallen back into the depressed range where it has been stuck since late 2022, challenging the idea that the manufacturing sector is starting to turn a corner.

Even so, we still expect the beginnings of a meaningful recovery in manufacturing activity to emerge over the next few months, as lower long-term rates drive a modest upturn in domestic capital investment. China's manufacturing PMIs, meanwhile, have provided a less reliable lead to the ISM survey over the past year or two than before Covid, but they suggest that external demand ought to be providing more support to the US manufacturing sector too. Indeed, the jump in the ISM

new export orders balance in February to 51.6, from 45.2, was one of the few bright spots in this report.

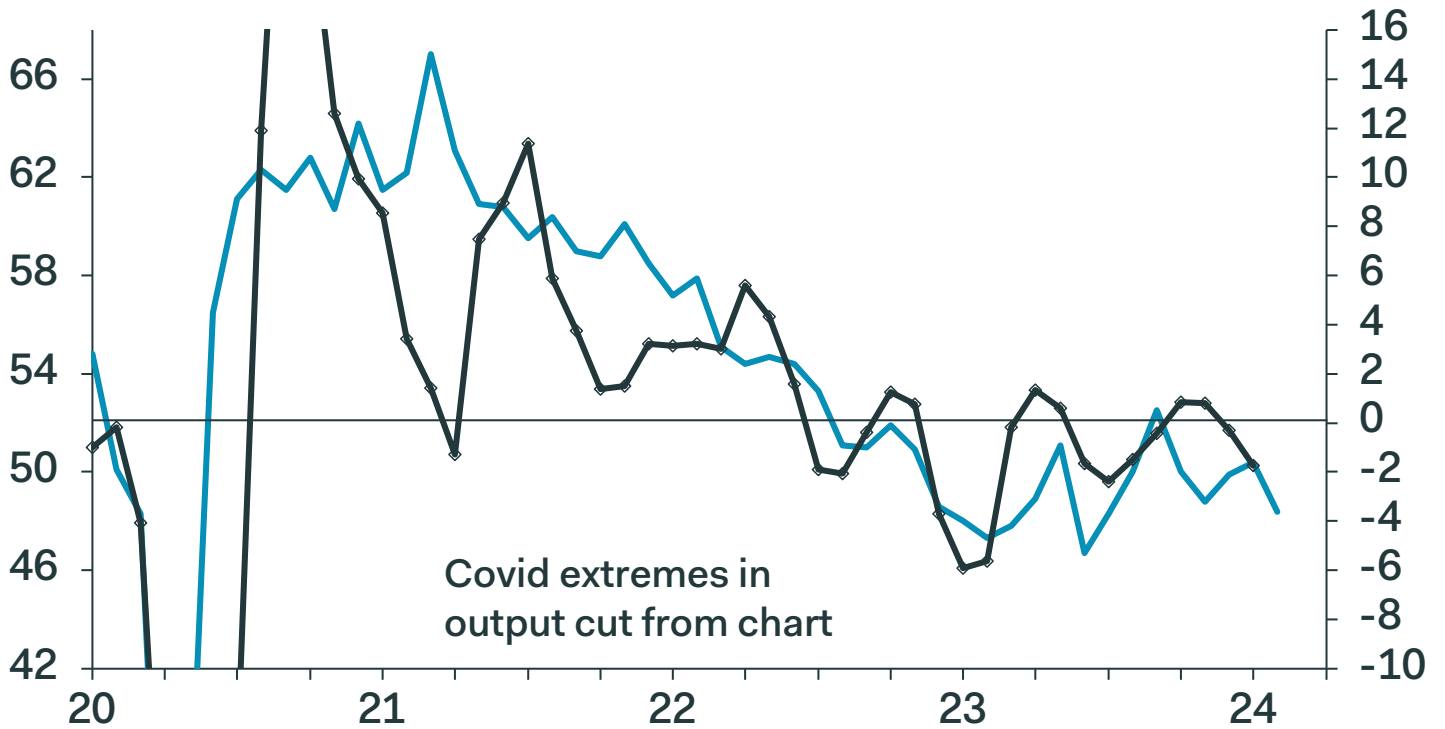
Elsewhere, the prices paid balance fell only slightly, to 52.5, following its leap to 52.9 in January, but this tells us little about the outlook for core goods inflation, since the index closely tracks commodity prices. A far better leading indicator of underlying goods inflation is the average of the order backlog delivery times and balances, which dipped slightly last month. It continues

to point to further deflation in goods prices, but at this point the trajectory in services inflation - which this survey does not address - matters far more.



— ISM manufacturing production index (Left)

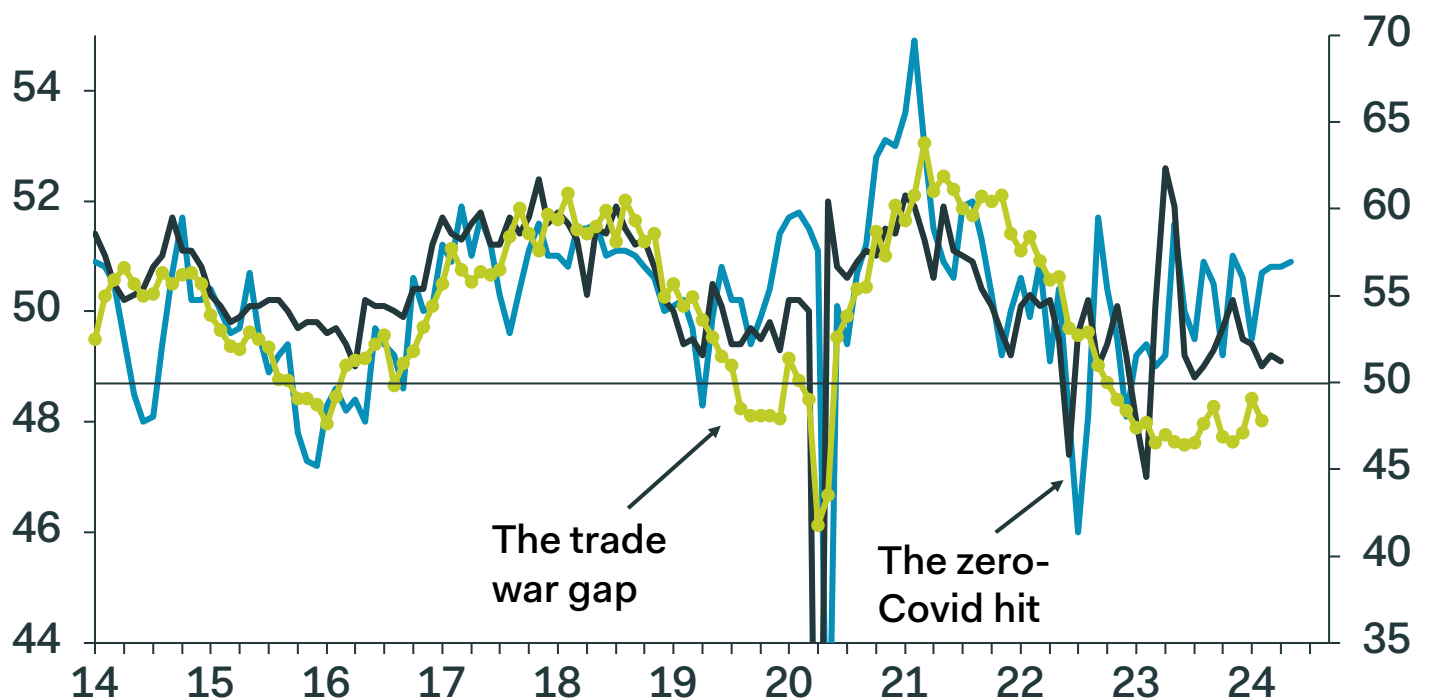
— Manufacturing output ex-autos, 3m/3m annualized, % (Right)



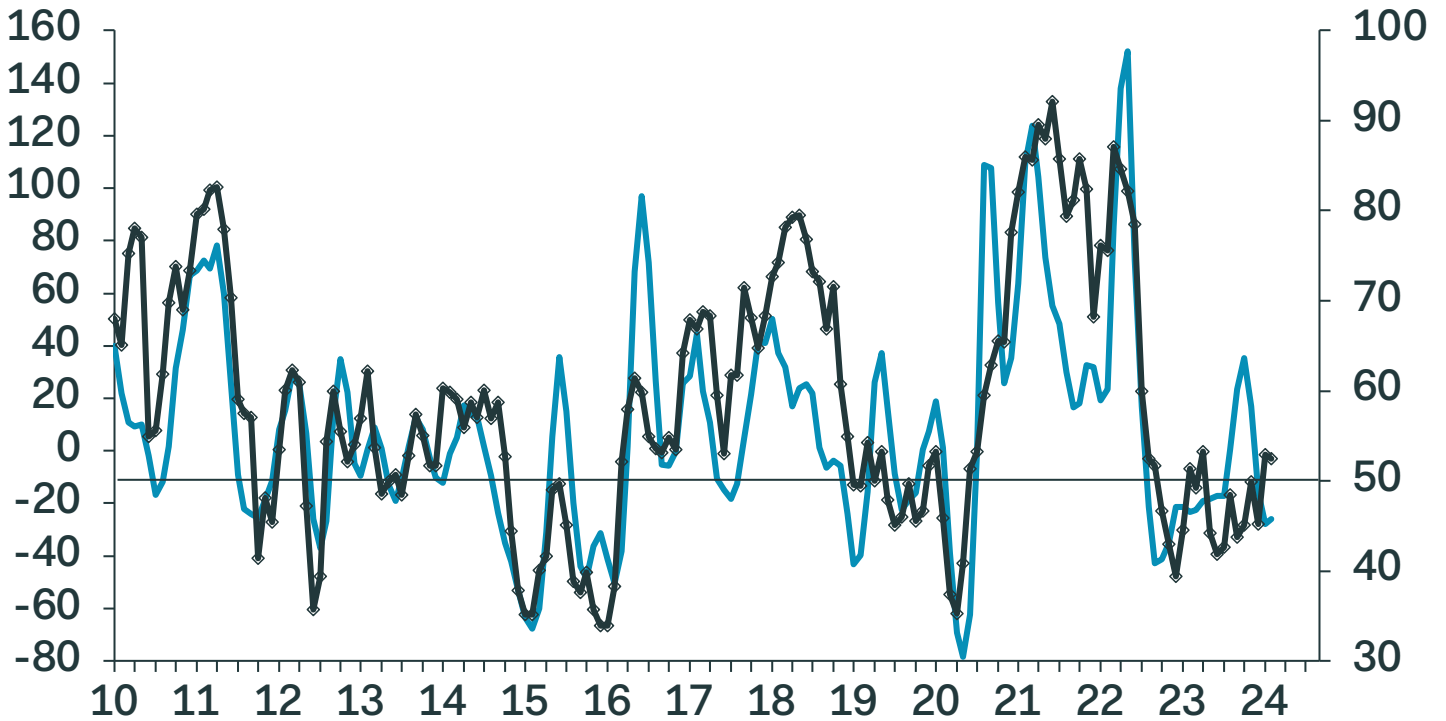
— Caixin/Markit China manufacturing PMI, adv. three months (Left)

— Official China PMI, advanced two months (Left)

— ISM manufacturing index (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)

