

US manufacturing

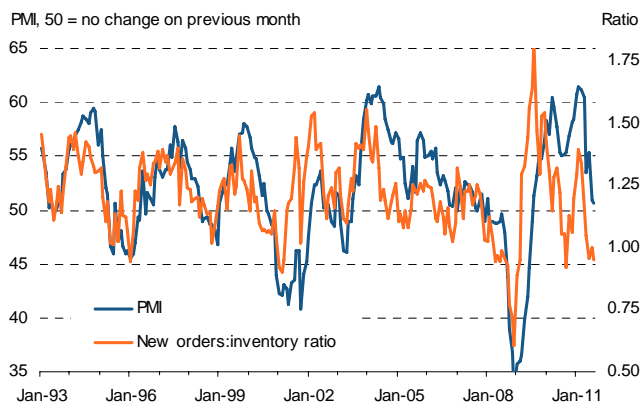
US manufacturing PMI edges closer to stagnation

- ISM beats forecasts but still signals worryingly slow manufacturing growth.
- Output and new orders fall.
- Employment growth slows.

A drop in the ISM's headline PMI to 50.6 from 50.9 in July was better than the 48.5 reading analysts had been expecting, but this survey is still signalling a worryingly slow rate of growth of the US manufacturing sector. The near-stagnation signalled by the ISM survey was the weakest performance since the US PMI rose above the neutral 50 level in August 2009.

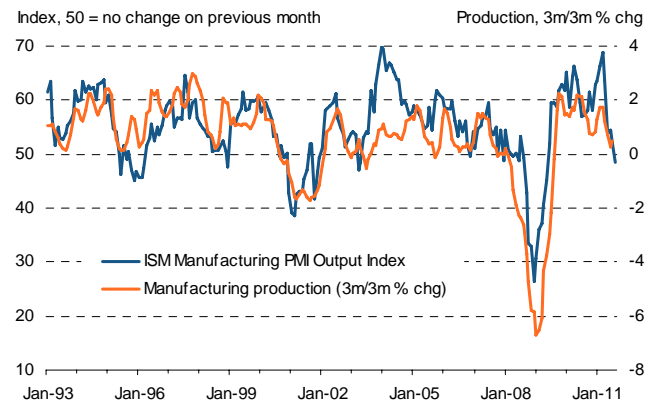
It should also be noted that the PMI was supported by rising employment and inventory levels – both of which are lagging indicators. In contrast, output and new orders components both signalled contraction, and the forward-looking new orders-to-inventory ratio is at an extremely low level by historical standards.

PMI and the new orders:inventory ratio



Following the disappointing consumer confidence data earlier this week, one wonders where any growth impetus will come from in the second half of this year. Households and businesses are both clearly struggling and looking to retrench again in the face of growing headwinds, which include slower global growth, indecisive policy making and a deteriorating outlook. Furthermore, policy will effectively tighten in the coming months as stimulus measures put in place at the height of the recession come to an end.

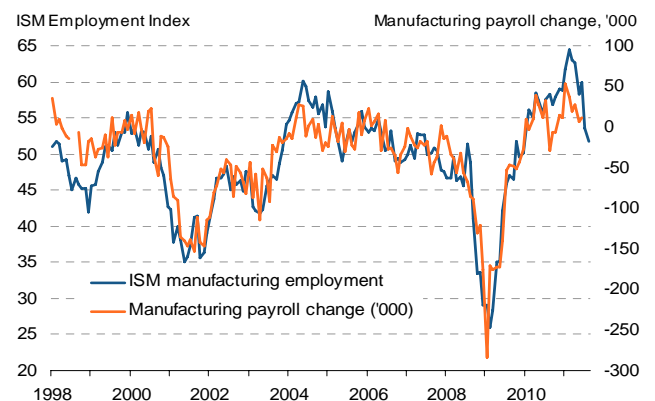
US manufacturing output



Looking further at the detail behind the headline PMI, US purchasing executives reported that output fell for the first time since May 2009 due to weakened demand. New orders have now fallen – albeit only modestly – for two successive months, led by falling orders from domestic customers and a near-stalling of export order book growth. The ISM data therefore suggest that the official data on manufacturing production will weaken further, having shown just a 0.5% rise in the three months to July. That compared with a 1.7% increase back in March.

Employment growth has also slumped sharply since earlier in the year. The Employment Index fell from 53.5 to 51.8 – its lowest level since November 2009. It is likely that employment growth will continue to weaken unless demand picks up in the coming months.

US employment (manufacturing)



Sources: ISM, BKS, Ecwin.

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