

US NON-MANUFACTURING SENTIMENT REBOUNDS, MANUFACTURING MODERATES

The post-election euphoria died down in the manufacturing sector in April, while sentiment in non-manufacturing bounced back to its recent highs. The ISM manufacturing index fell 2.4pts to 54.8 and the non-manufacturing index reversed all its decline from March, increasing to 57.5 in April, resulting in a 1.8pt increase in the ISM composite index to 57.2 - aggregates both based on their weights in GDP (see Chart 1). This is good news for the pace of economic activity at the start of Q2 and provides more evidence that the low Q1 GDP number was quirky. We expect GDP growth to **bounce back to 3.3% in Q2 from 0.7% in Q1** (see [“US GDP: Q1 quirky, expect rebound”](#), April 28, 2017).

The sentiment surveys’ employment indexes are only slightly above the 50-pt mark, suggesting that the pace of job growth is likely to moderate somewhat in coming months as +200k monthly job gains are unsustainable at this advanced stage of the labor market recovery. Indeed, ADP today estimated that US private payrolls rose by 177k in April compared to 255k in March.

ISM Manufacturing

The strong gains in the ISM manufacturing index in Q1 matched the robust 9.4% (annualized) increase in business fixed investment, which was the fastest increase since Q4 2013. The lower ISM manufacturing index at the start of Q2 supports our expectation of a slower, but still solid, 5.6% gain in real business fixed investment this quarter.

The decline in the headline manufacturing index was primarily due to a 7pt drop in the new orders index to 57.5 and a 6.9pt drop in the employment index to 52.0 – indicating that factories may be easing up on hiring after ramping up payrolls since December (there was a net decline in manufacturing payrolls in 2016).

The details on foreign trade continue to impress, with the new export orders index approaching 60, boding well for future US export growth and manufacturing demand (see Chart 2). The picture on the global economy has improved with US corporate profits from the rest of the world outpacing growth in US domestic profits over the last year.

ISM Non-Manufacturing

The ISM non-manufacturing report was strong all round, with 7 out of its 10 subcomponents increasing on the month. The details on current activity and future demand were particularly strong, with business activity index up 3.5pts to 62.4, and the new orders subindex up 4.3pts to 63.2, the highest reading since August 2005 (see Chart 3).

Price pressures continued to build in the non-manufacturing sector in April, with 16 industries reporting an increase in prices paid and only one industry reporting a decline. In light of the downside surprises to consumer price measures in March, this provides some evidence that the softness in prices was transitory and that inflation will continue to hover near 2%.

Similar to its manufacturing counterpart, the ISM non-manufacturing new export orders subindex was very strong, increasing by 3pts to 65.5, an almost 10-year high (see Chart 4).

04 May 2017

Interesting published comments from respondents to the ISM surveys:

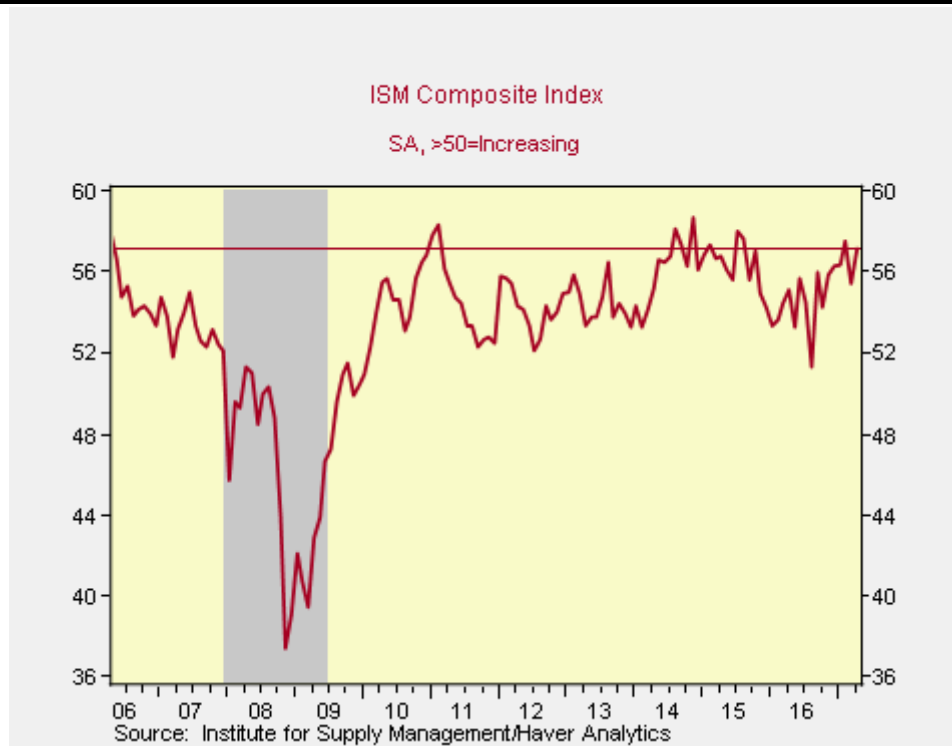
Manufacturing:

- "Bookings are slow; however, we did receive a very large government order." (Computer & Electronic Products)
- "Ongoing market strength. While world/political headlines cause personal anxiety, business conditions remain solid." (Miscellaneous Manufacturing)
- "Military and government spending is remaining strong. Commercial business has been flat to slightly down." (Transportation Equipment)

Non-Manufacturing:

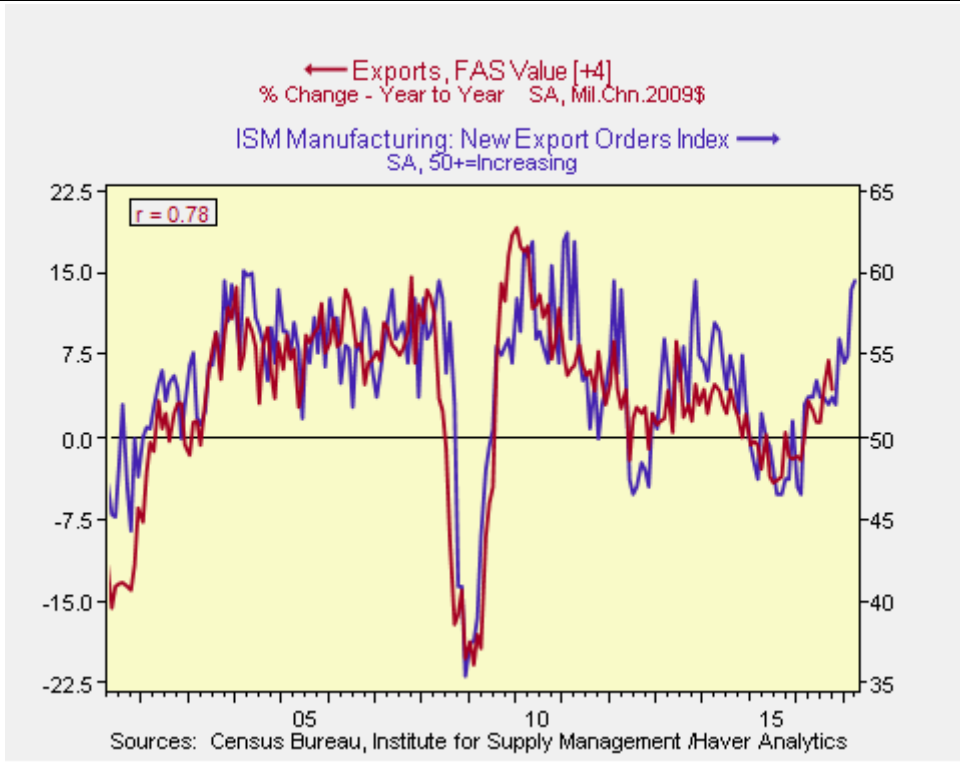
- "[Overall] positive outlook for Q2, Q3, and Q4 [in] 2017." (Retail Trade)
- "Stable activity. Waiting on health care reform and its impact on our organization." (Health Care & Social Assistance)
- "Beginning of Q2, business is profitable, maybe a bit slower than anticipated. Opportunity still positive." (Finance & Insurance)

Chart 1: ISM Composite Index



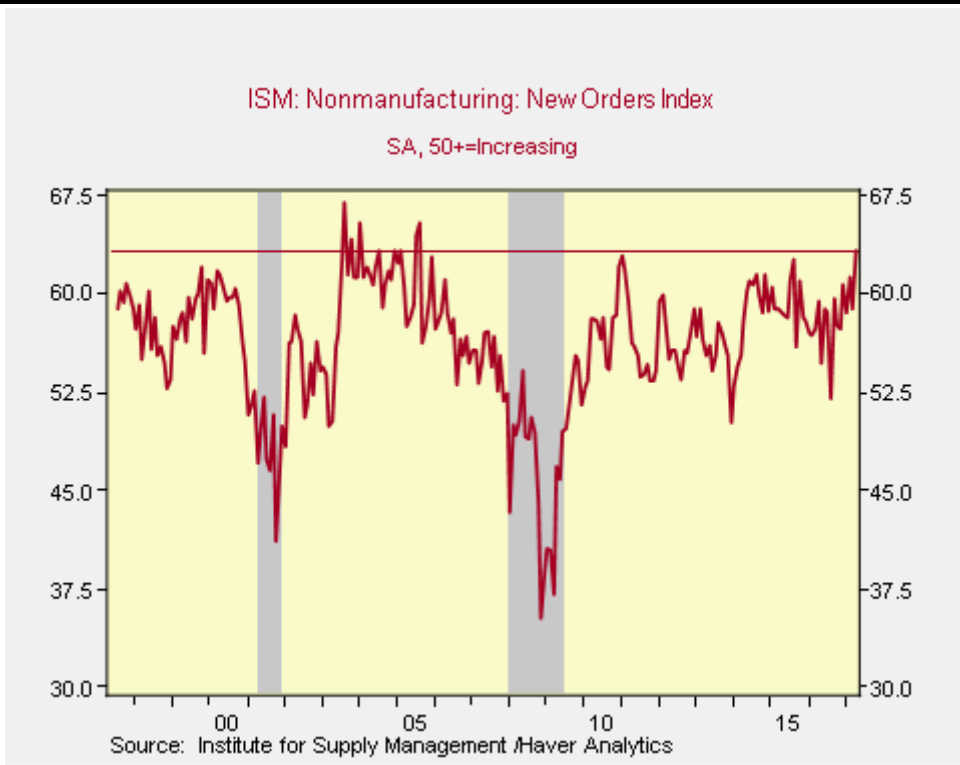
Source: Monthly data. Source: Institute for Supply Management and Haver Analytics

Chart 2: ISM Manufacturing New Export Orders Index (4-mth lead) vs Real Export Growth (yr/yr, %)



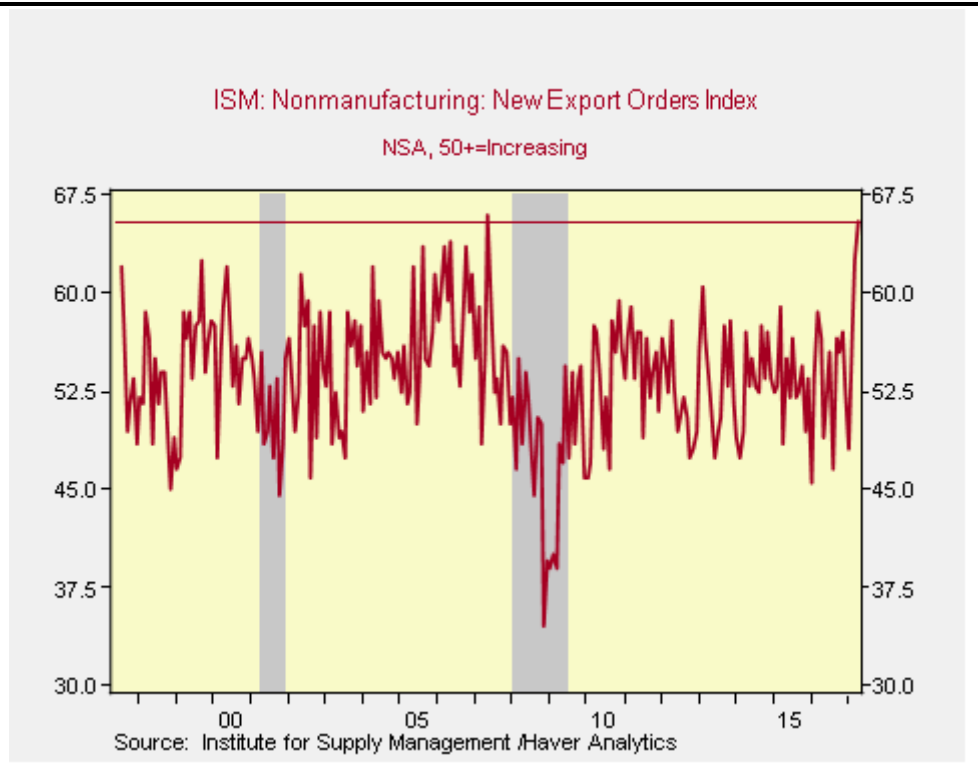
Source: Monthly data. Source: Institute for Supply Management, Census Bureau and Haver Analytics

Chart 3: ISM Non-Manufacturing New Orders Index



Source: Monthly data. Source: Institute for Supply Management and Haver Analytics

Chart 4: ISM Non-Manufacturing New Export Orders Index



Source: Monthly data. Source: Institute for Supply Management and Haver Analytics

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