ISM U.S. MANUFACTURING INDEX INCHES LOWER, BUT REMAINS IN POSITIVE TERRITORY

*The ISM U.S. manufacturing sentiment index declined by 0.4pt to 51.7 in June (consensus: 51.0), the lowest since October 2016 when the U.S. was climbing out of the prior global industrial slump (Chart 1). At 51.7, the index is still in positive territory (-50), suggesting that U.S. manufacturing activity continues to expand but at a significantly slower pace than the last two years when the index hovered around 60.

*Manufacturing PMIs in other countries suggest that the global economy is in the midst of a widespread and deepening industrial slump due to tariffs, China's economic slump, sluggish global growth, and the fall in trade volumes - manufacturing PMIs for China, Japan, South Korea, Germany, and the UK all remained below 50 in June (Charts 2 and 3).

*The details of the ISM manufacturing survey were broadly weak - only 67% of industries reported growth and five of the 10 sub-indexes declined (Chart 4).

*The published comments from respondents to the ISM survey reflected lingering concerns about tariffs and related supply chain issues. A couple of respondents surprisingly characterized business as “strong” (see below).

The ISM manufacturing survey's details on current activity were mixed: the new orders index almost fell into contraction (-2.7pt to 50.0), but the production index increased to a three-month high in June (+2.8pt to 54.1). See Chart 5. Although the employment index increased to 54.5 from 53.7, it suggests that manufacturing hiring remains weak (June Employment Report is scheduled for release on Friday, July 5). Manufacturers have added 13k total jobs over the last four months, which is below the average monthly increase in manufacturing payrolls in 2018 (+22k).

Two key ISM measures reflect slowing manufacturing momentum and softening demand: 1) the 5.5pt decline in the backlog of orders index since April to 47.4; and 2) the 12.5pt decline in the suppliers deliveries index (measures vendor delivery times) since last October to 50.7, the lowest since September 2016. The inventories index declined to 49.1 in June from 50.9 in May and is consistent with our expectation for manufacturers to work off the inventory overbuild - inventory-sales ratios in the durable goods sector have surged due to sluggish sales.

The prices paid index declined by 5.3pts to 47.9, reflecting weaker manufacturing demand and receding raw industrials prices (Chart 6). Survey and “hard” data and measures of inflation expectations suggest that inflation is likely to remain low.

The new exports orders index declined to 50.5 from 51.0 and the imports index rose slightly by 0.6pt to 50.0. According to the ISM report "New Export orders expanded marginally, with many respondents noting global trade softness in Europe, Southeast Asia and China as reasons for sluggish activity." (Chart 7). World trade volumes are on track to decline through the remainder of Q2 (World trade volumes declined in April [berenberg.de] , June 25, 2019).

The magnitude and timing of any rebound in global manufacturing production, growth and trade hinges on two key factors: 1) a successful resolution of U.S. trade negotiations that would remove some uncertainty, unclow global supply chains, and lift sentiment; and 2) the effectiveness of China’s economic stimulus initiatives. We caution that the rebound in activity may be more modest than many expect.

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Key published comments from the ISM manufacturing survey respondents:

- “China tariffs and pending Mexico tariffs are wreaking havoc with supply chains and costs. The situation is crazy, driving a huge amount of work [and] costs, as well as potential supply disruptions.” (Computer & Electronic Products)
- “Tariffs continue to adversely impact decisions and forecasting. Our increasing fear is that current trends will weaken the global economy, influencing our ability to grow in 2020 and beyond.” (Fabricated Metal Products)
- “Business has slowed in the last 30 to 60 days. The last 30 days have tracked 4 percent below plan, but still 6 to 8 percent above the previous year to date.” (Miscellaneous Manufacturing)
- “Global demand remains very strong. [We] shifted shipments to China from our U.S. plants to our Canadian and European plants because of tariffs.” (Food, Beverage & Tobacco Products)
- “Business is still strong. Pricing on raw materials has stabilized.” (Plasctics & Rubber Products)

Chart 1: ISM Manufacturing PMI Composite Index

Chart 2: Manufacturing PMIs in Japan, UK, South Korea and Germany
Chart 3: China Manufacturing PMI - Headline, New Orders and New Export Orders Indexes

Chart 4: ISM Manufacturing - Percent of Industries Reporting Growth
Chart 5: ISM Manufacturing - Production and New Orders Indexes

Source: Institute for Supply Management/Haver Analytics

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

Chart 6: ISM Manufacturing Prices Index and Spot Commodity Price Index for Raw Industrials

Source: ISM/H, CRB/Haver

Source: Monthly data. Source: Institute for Supply Management, Commodity Research Bureau and Haver Analytics
Chart 7: ISM Manufacturing - New Export Orders and Imports Indexes

Source: Institute for Supply Management/Haver Analytics

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