

US REGIONAL MANUFACTURING SENTIMENT WEAKENS BUT UNDERLYING DETAILS SOLID

The two major regional manufacturing surveys – Empire State and Philadelphia Fed – released thus far in April have revealed an interesting trend with the headline indexes (general business conditions) moving lower, indicating that the post-election euphoria is diminishing, but the underlying components continue to increase or are posting smaller declines than the headline indexes.

The divergence is due to the fact that the headline index is based on a subjective single question which asks businesses to assess how conditions have changed over the month. (The April decline probably reflects uncertainty stemming from the health care policy reform failure and concerns about the status of fiscal reform.) As a result, taking the underlying components on orders, shipments and employment into consideration is more instructive when determining the underlying trend in manufacturing activity.

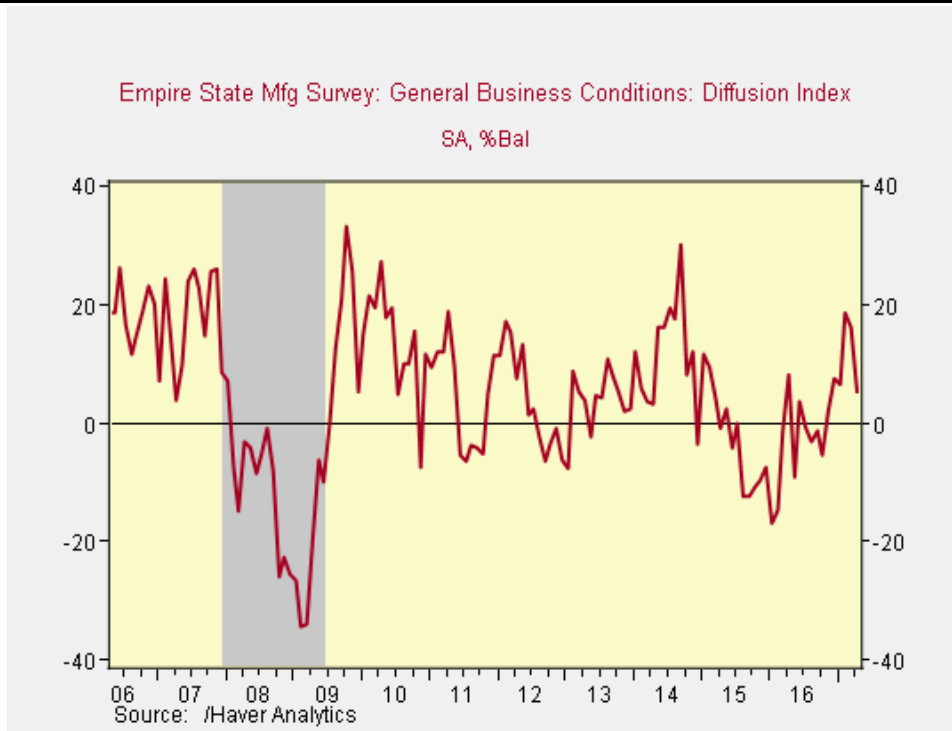
The Empire State manufacturing index fell over 11pts in April to 5.2, its lowest since last November (see Chart 1). However, the Empire State ISM-adjusted index which takes subcomponent measures (new orders, shipments, employment, delivery time and inventories) into account, increased to an almost six-year high (see Chart 2). Note the large jump in supplier delivery time to the highest level in the history of the survey (see Chart 3). This surge suggests that demand for raw materials/inputs are running high, and that suppliers are having difficulty filling this robust demand in a timely manner. Finally, optimism about future conditions continued to hold firm, with capex plans moving higher (see Chart 4).

The details of the Philly Fed manufacturing survey in April, closely mimicked that of the Empire State manufacturing survey, with its headline index dropping by 10.8 points to 22 – lowest since last December. The subindexes performed better, and as a result the Philly Fed ISM-adjusted index remained quite elevated (see Chart 5). Interestingly, the supplier delivery time measure within this survey also jumped, manufacturing firms continue rebuild payrolls after shedding jobs last year and capex plans increased to its highest level since the start of the 2000s (see Chart 6).

Business investment likely grew at its fastest pace since 2014 in Q1 and the data contained in the underlying details of these surveys suggest that this momentum has carried over into early Q2, despite some weakening in headline sentiment.

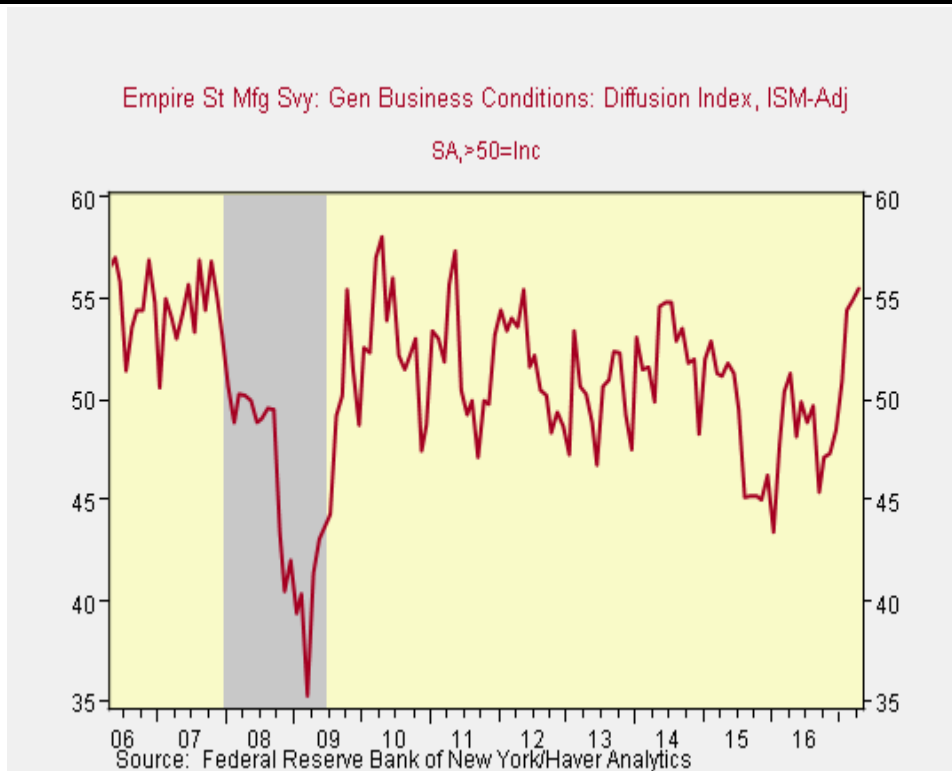
20 April 2017

Chart 1: Empire State Manufacturing: General Business Conditions Index



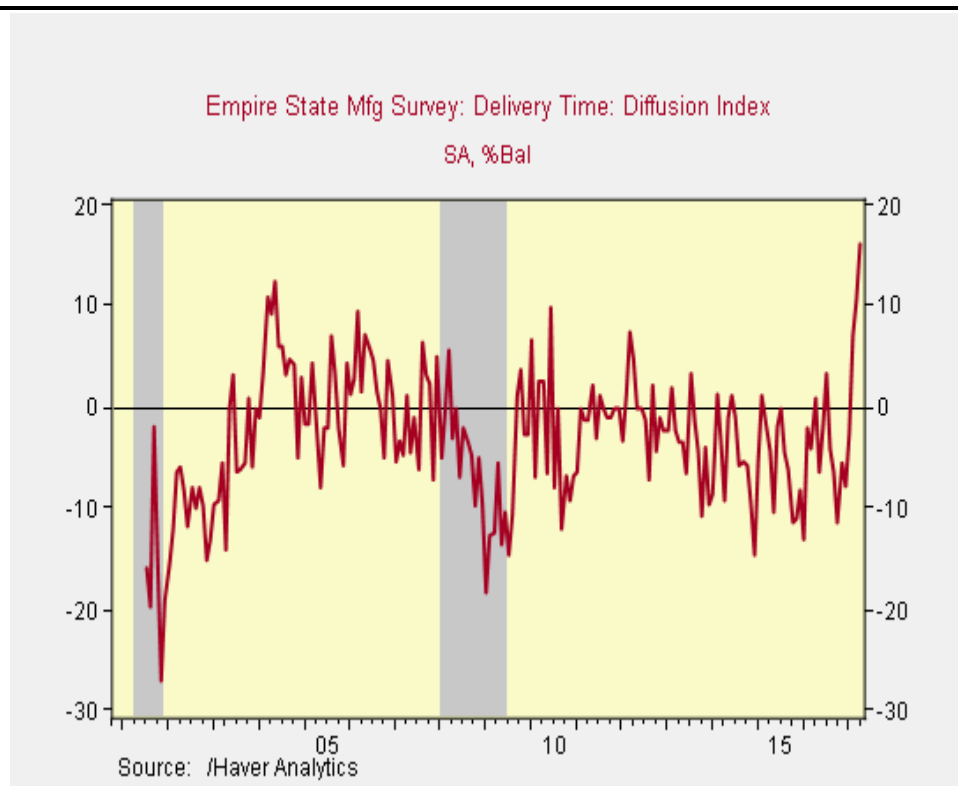
Source: Monthly data. Source: Federal Reserve Bank of New York and Haver Analytics

Chart 2: Empire State Manufacturing: General Business Conditions ISM-Adjusted Index



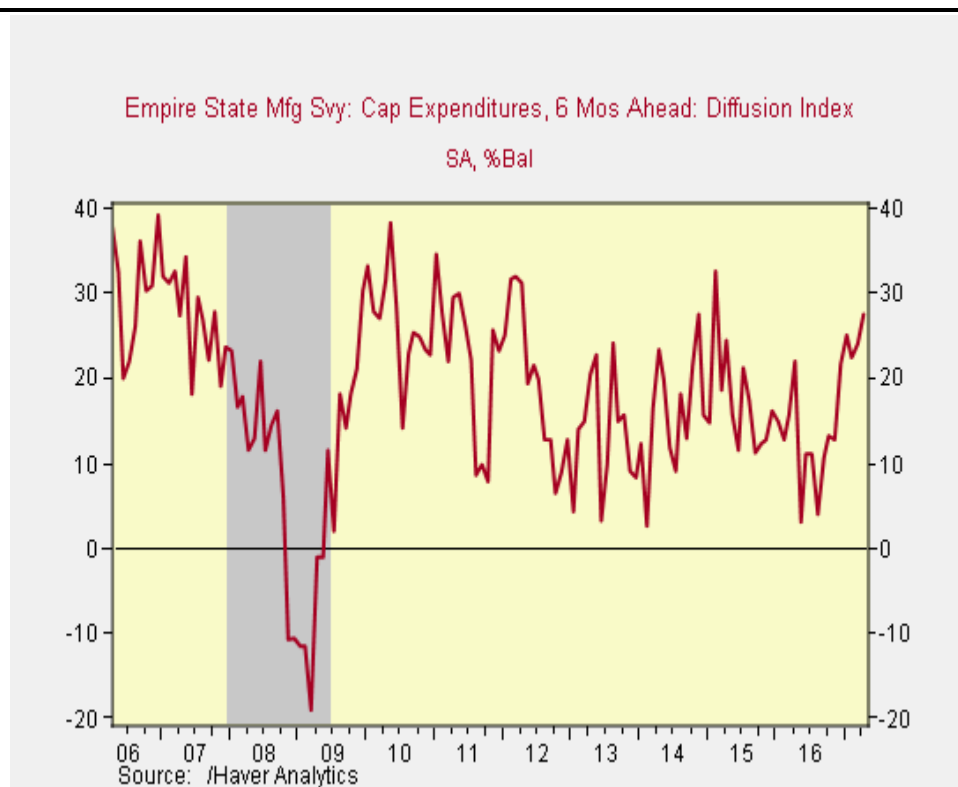
Source: Monthly data. Source: Federal Reserve Bank of New York and Haver Analytics

Chart 3: Empire State Manufacturing: Delivery Time Index



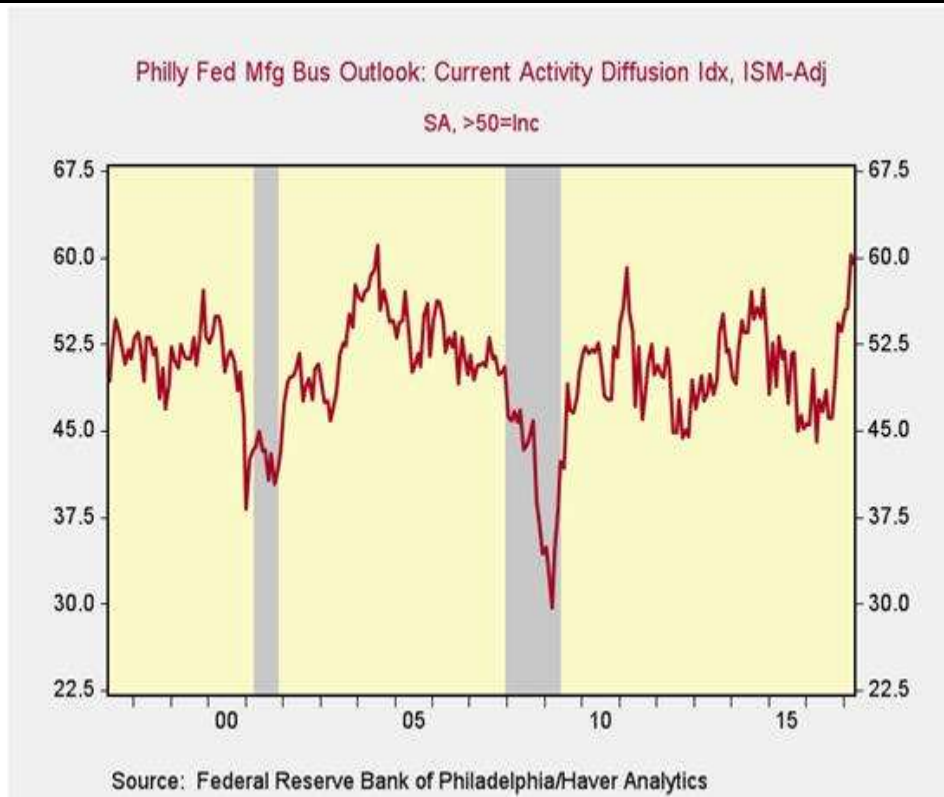
Source: Monthly data. Source: Federal Reserve Bank of New York and Haver Analytics

Chart 4: Empire State Manufacturing: Six Months Ahead CapEx Index



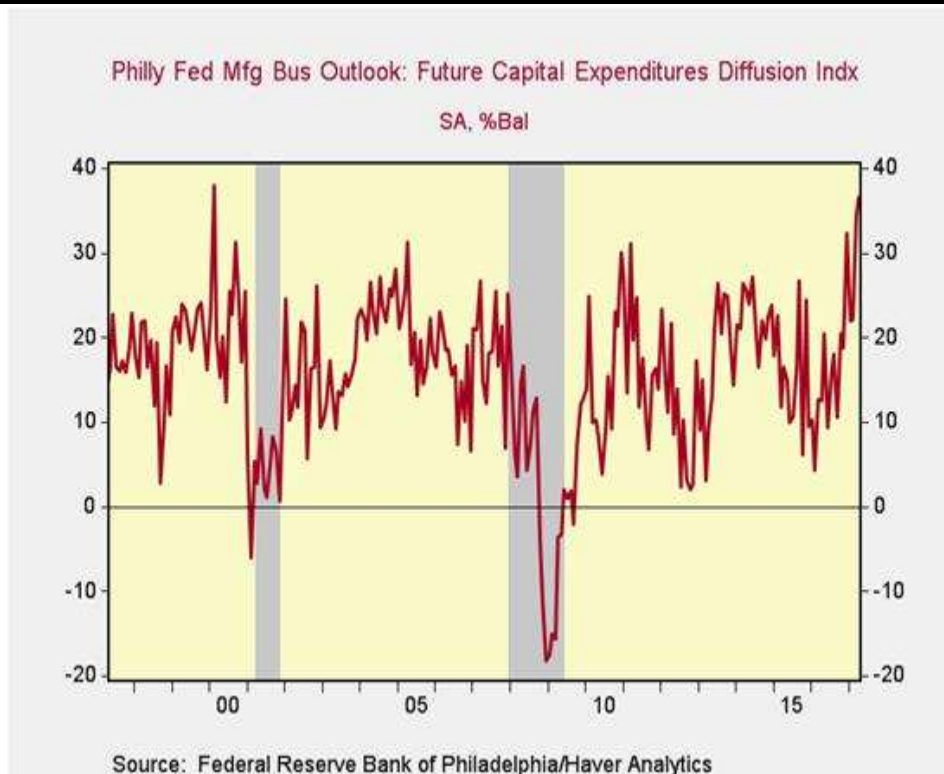
Source: Monthly data. Source: Federal Reserve Bank of New York and Haver Analytics

Chart 5: Philadelphia Fed Manufacturing: General Business Conditions ISM-Adjusted Index



Source: Monthly data. Source: Federal Reserve Bank of Philadelphia and Haver Analytics

Chart 6: Philly Fed Manufacturing: Six Months Ahead CapEx Index



Source: Monthly data. Source: Federal Reserve Bank of Philadelphia and Haver Analytics

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