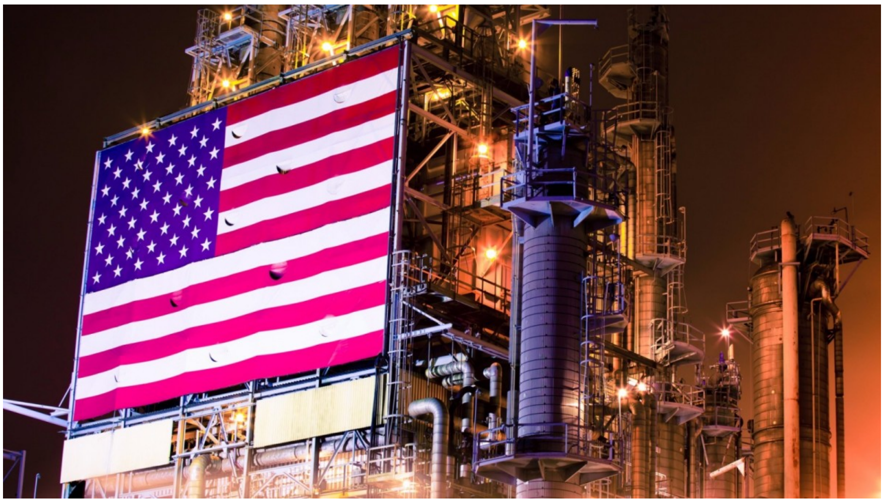
US manufacturers show their resilience

US manufacturers are holding their own despite huge headwinds from supply chain problems and worker shortages. Construction is also holding up well and this offers more support to our view that the 3Q growth slowdown is a temporary blip



Source: iStockphoto

Manufacturing disconnects from China

In another positive data surprise the ISM manufacturing index rose to 61.1 in August from what was an already very strong July reading of 59.9. Regional indicators had been mixed with the consensus expecting a slight dip to 59.5 while the sharp slowdown in Chinese manufacturing has also heightened fears that the US manufacturing could be starting to experience softer growth.

China versus US manufacturing purchasing managers' indexes

Source: Macrobond, ING

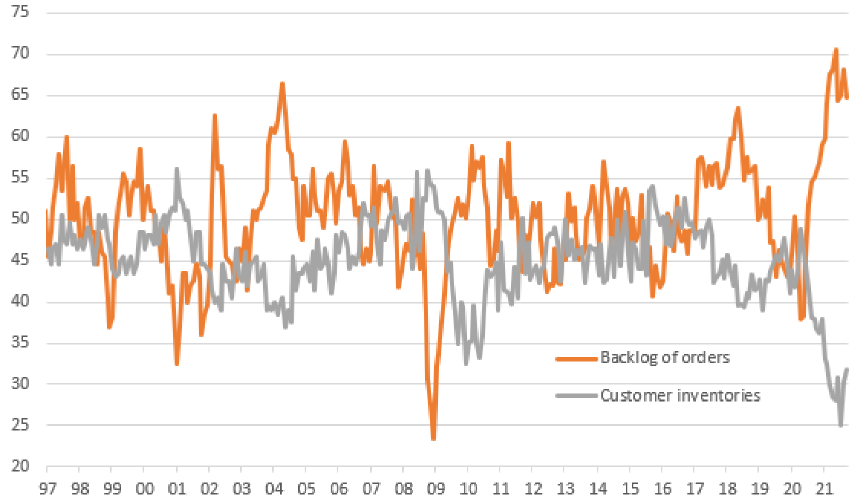
Supply chain strains, production bottlenecks and labour market shortages continue to be a hindrance, but today's report suggests the sector is proving to be more resilient than thought.

The details show new orders holding strong at 66.7 with the backlog of orders continuing to grow at a rapid pace. Meanwhile production dipped only modestly and is still close to 60 – remember anything above 50 is in expansion territory and the further you are above 50 the greater the rate of expansion. Significantly, employment improved to 50.2 from 49.0 while supplier delivery time increased, customer inventories continue to plummet and price paid rose again on higher energy costs.

Pricing power means inflation stays higher for longer

Bringing this altogether we have a story whereby US manufacturers have a massive backlog of orders with new orders continuing to flood in at a time when their customers are desperate for stock. This means manufacturers have the sort of pricing power they haven't experienced for decades and so can pass their higher costs on. The end result is consumer price inflation stays even higher for even longer.

Manufacturers have full order books and customers are desperate



Source: Macrobond, ING

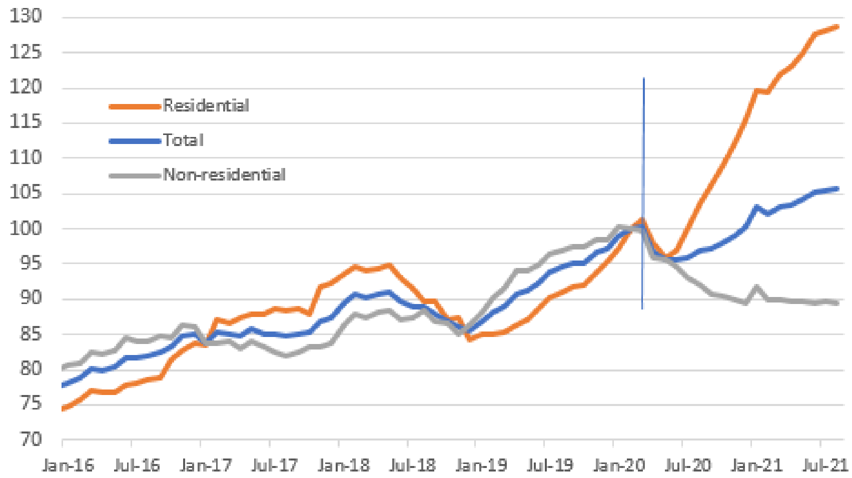
Construction disappoints, but the outlook remains encouraging

Other data shows consumer confidence as measured by the University of Michigan being revised higher while construction spending was flat as a 0.4% gain in residential was offset by a 0.4% fall in non-residential.

The outlook for construction is actually starting to look a little better than we had been fearing. The recent recovery in housing activity suggests residential construction can continue growing while we assume the government's infrastructure plan will eventually pass and support the non-residential outlook. Private non-residential will continue to be depressed by the lack of demand for new office space, but with companies looking to invest again after 18 months of sitting on their hands we expect to see other components pick up the slack.

Next week's key report is the jobs report next Friday. Consensus is around the 500k mark and that will be enough for the Fed to announce the QE taper on November 3rd.

Construction output levels versus the pre-pandemic peak



Source: Macrobond, ING

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