US manufacturing and construction suffers from declining order books

While the "technical" recession in the US can be brushed aside as extreme volatility in trade and inventories, there are more and more signs that recessionary forces are starting to feel "real". Residential construction is experiencing the pain from rising mortgage rates, but the bad news is now spreading more broadly to manufacturing

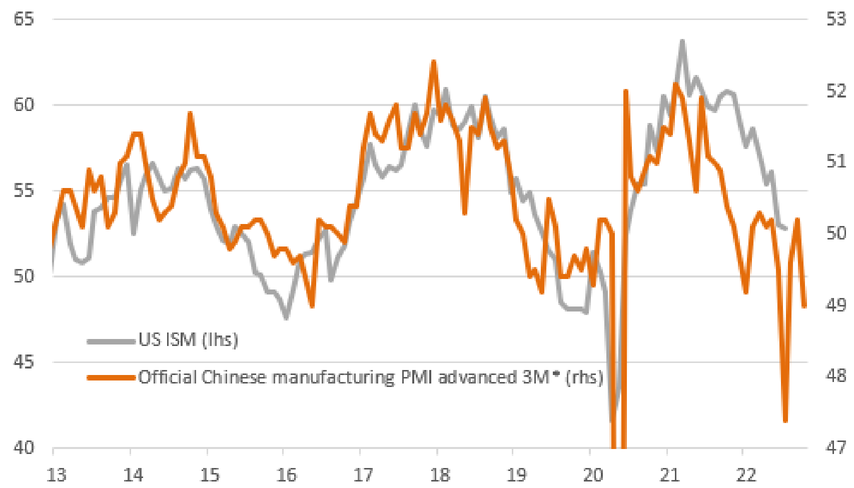
US manufacturing is on a softening path

Manufacturing orders are waning, pointing to falling output in the months ahead

The US ISM manufacturing index didn't fall as much as feared, but it is still clearly on a softening path. The headline dipped to 52.8 from 53.0 (consensus 52.0) and production is in positive territory at 53.5, but this is below the 54.9 level in June, which also happens to be the 6M average. Sadly, we think the production story will continue to weaken in the months ahead.

New orders dropped to 48 from 49.2, so below the breakeven 50 level indicating expansion/contraction. This is the second sub-50 print in a row while order backlogs slowed to the lowest level since June 2020. The chart below shows the strong relationship with the Chinese PMI, which fell back into contraction territory overnight. This suggests supply chain pressures are unlikely to dissipate quickly. Putting this altogether the combination of soft external environment and domestic orders coming under pressure means we should be braced for further manufacturing weakness in the months ahead.

Chinese PMI tends to lead the US ISM



Source: Macrobond, ING

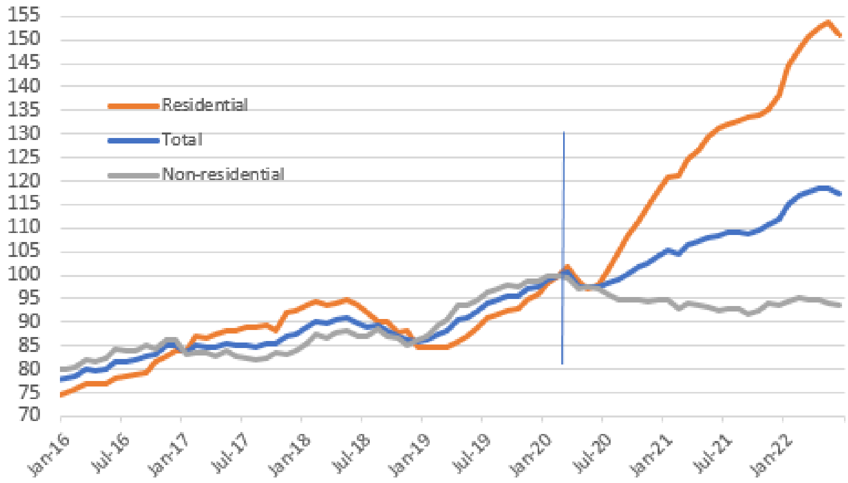
Nonetheless, there are two bits of better news. Firstly employment rose back to 49.9 from 47.3. It is fractionally in contraction territory still and likely reflects the ongoing struggle to find skilled workers, but it means manufacturing employment shouldn't be a particular drag in Friday's payrolls number. Meanwhile prices paid plunged to 60.0 from 78.5, presumably as the steep falls in gasoline/fuel/commodity prices provide relief for manufacturers. In fact this is the lowest prices paid index since August 2020, which should please the Federal Reserve and provides further evidence that rate hikes won't need to continue through into 2023.

Construction downturn to accelerate as housing woes mount

This assessment has been boosted further by US construction spending falling 1.1% month-on-month in June, much worse than the +0.1% consensus forecast. May was revised up to +0.1% from -0.1%.

The residential sector is where the main issue lies, falling 1.6% as home builder sentiment plunges in response to rising mortgage rates and falling demand. Non-residential fell 0.5% MoM as corporates become more cautious on the economic outlook.

Construction spending levels



Source: Macrobond, ING

The residential weakness shouldn't be much of a surprise given the large drag on GDP from residential investment in the 2Q GDP report. This sector is worth around 2.5% of total GDP and with the strains on the housing market set to remain intense, it looks set to remain a drag on overall economic activity for much of the next twelve months.

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