

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.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.