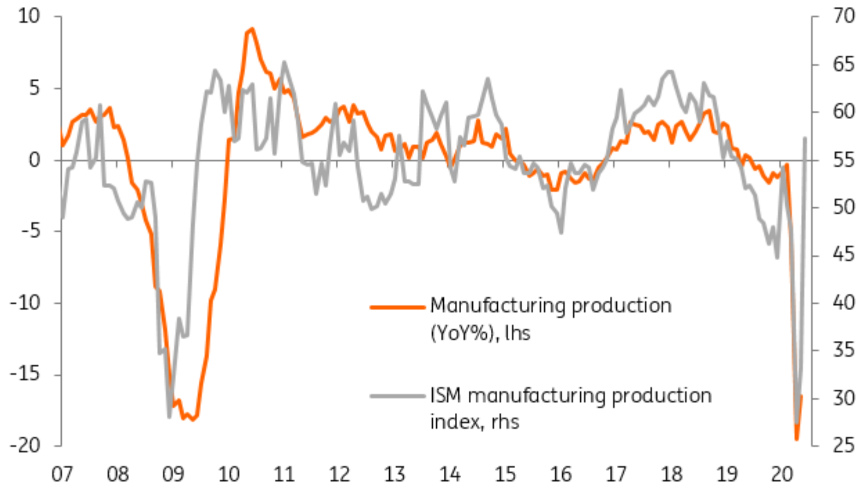
US manufacturing bounces as businesses re-open

The June Manufacturing ISM headline index bounced now that factories are allowed to produce. However, given the only allowable responses are "things are getting better/same/worse", it is important to remember the survey tells us nothing about magnitudes. Meanwhile, further declines in employment underline the strains in the sector

Source: Shutterstock

The ISM manufacturing for June has bounced a bit more than expected to 52.6 from 43.1 (consensus was 49.8). This in expansion territory given it is above the break-even 50 level, which you should expect given the re-opening. The production is up at 57.3 – the highest since November 2018, while new orders have improved to 56.4 from 31.8, leaving this component at its highest level since January 2019.

ISM may have bounced but like 2009/10 actual output will take longer to recover

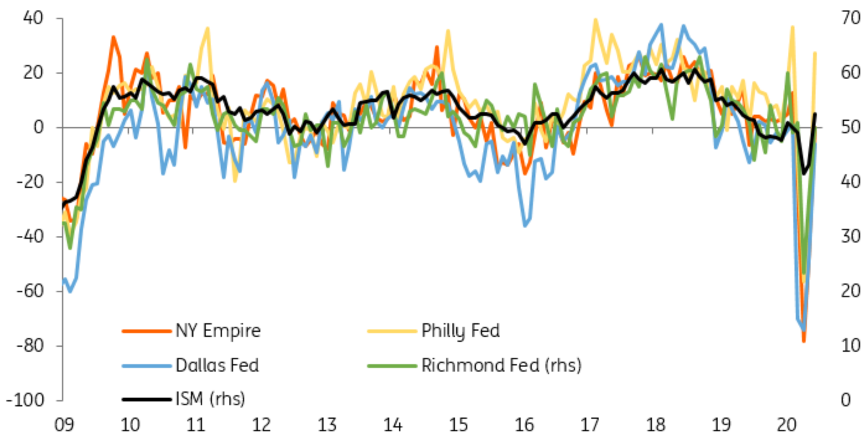


Source: Macrobond, ING

Supplier delivery times dropped much more than we had thought likely, to 56.9 from 68.0, which is a negative for the headline index, but should be viewed positively. It was giving misleading signals because supply chain issues relating to Covid-19 shutdowns had been distorting this component to the upside. The fact that it fell back suggests supply chain strains are easing.

While an upside surprise overall is great news, we would caution that it unfortunately doesn't tell us anything about magnitudes of improvement, merely that a majority of companies are experiencing rising output and orders. Remember that the survey question only offer responses of output/orders/employment etc either being better/same/worse. Seeing as you are now allowed to make stuff things should really be "better". We would also just point out that the ISM report is painting a rosier picture than the regional manufacturing surveys, which fell much, much more and are some way from making a full recovery.

National ISM survey outperforming regional indicators



Source: Macrobond, ING

What does it mean for tomorrow's jobs report?

Looking to tomorrow's jobs report, the ISM employment component has improved, but remains in clear contraction territory at 42.1 (i.e. below the 50 break-even level). This tells us that the sector continues to shed jobs, but not as rapidly as it did in May when the index was down at 32.1.

As for other jobs indicators, this morning's ADP payrolls report showed massive upward revisions of around 6 million to private payrolls in May. This brings it into line with the official payrolls number that caught everyone by surprise last month, but the June ADP figure showed a more muted increase of 2.37mn. The Homebase survey, which focuses on small employers is pointing to a sizeable increase in employment as more and more shops, restaurants and bars re-opened. For what it is worth, we favour a modest upside surprise for tomorrow's non-farm payrolls figure, but our confidence is low. The consensus is looking for a 3.07mn rise (range is 0.5mn to 9mn) and we are looking for something around the 4 million mark.

However, we are more nervous about the July figure that will be published in early August, which could significantly disappoint markets. Initial claims and continuing claims are remaining sticky while the Homebase data suggests the small business sector is now shedding jobs again. One possible explanation is that many small businesses that took advantage of the loan forgiveness aspect of the Paycheck Protection Program have exhausted the money.

In this regard, the National Federation of Independent Businesses reported 14% of members that took advantage of the scheme are expecting to fire staff in coming weeks given demand has not returned to pre-Covid levels. If renewed containment measures across numerous states make it unviable for businesses to operate then it will only add to the problems in the jobs market.

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