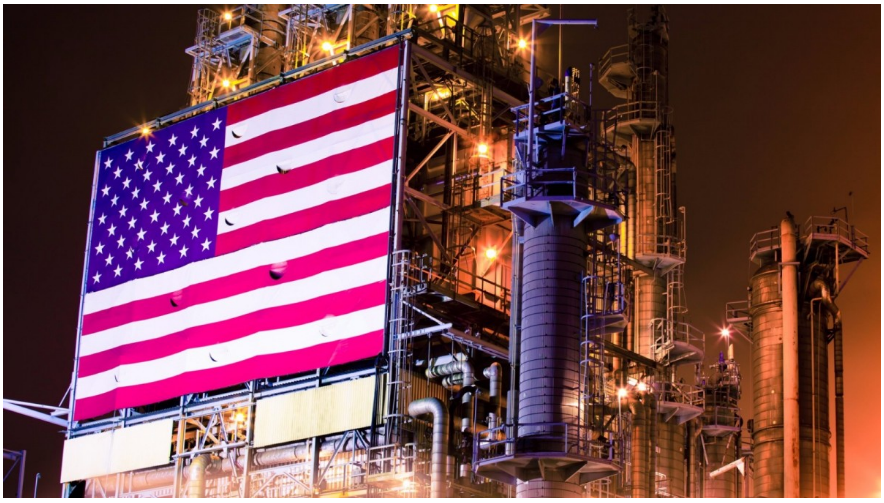
US manufacturing growth - slower but broader

Manufacturing growth appears to have slowed in April, but it is becoming more broad-based. This should give the Fed the confidence to continue with "gradual" rate hikes



Source: iStockphoto

57.3 April ISM manufacturing index

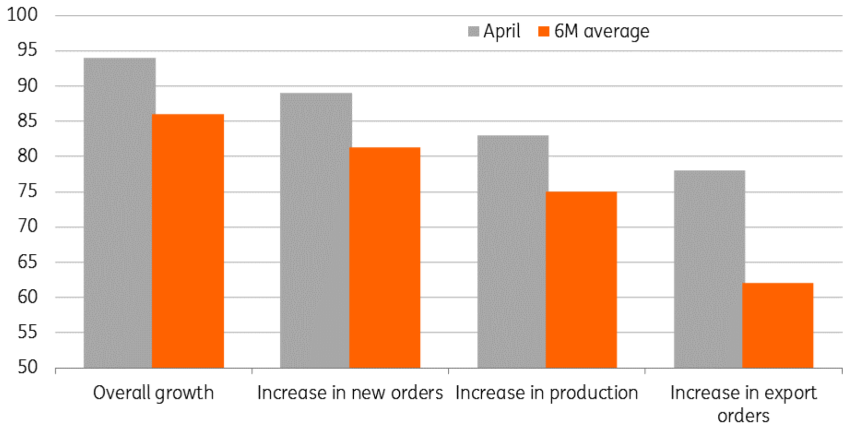
Weakest since July 2017

The US ISM manufacturing index fell a little more than expected in April, coming in at 57.3 versus the 58.5 consensus and down from the 59.3 reading from March. This was the weakest reading since July 2017, but it is important to point out that we are still at levels that historically were consistent with GDP growth of 5%. Admittedly, this has been overstating the situation in recent years, but it still tells us that despite all the recent worries about protectionism, US manufacturing feels as though it is in great shape.

Looking at the details, new orders fell only fractionally to 61.2, suggesting output will remain very robust in the months ahead - remember 50 is the break-even level. Production fell to 57.2 from

61.0 and employment dropped to 54.2 from 57.3, but these sub-indices are still growing, just at a slightly slower rate. New export orders were also robust at 57.7, suggesting the global economy remains in pretty good shape despite worries over some of the recent European numbers.

It is also important to look at the dispersion of the results. According to the ISM, 94% of manufacturing industries are seeing overall growth, with 89% seeing rising orders while 83% are experiencing rising production. These are the highest readings for all three components for at least six months so while we have slightly slower growth overall in US manufacturing according to the ISM headlines, it appears to be more broad-based. This means the Fed can have the confidence to continue with its gradual policy tightening, especially with inflation pressures building in the economy, as highlighted by the prices paid component rising to its highest level since April 2011.



Source: Bloomberg

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