

US manufacturing order books and inflation pressures are softening

June ISM manufacturing was disappointing with new orders and employment contracting while order backlogs grew at a much slower rate. This suggests production numbers will weaken in 2H 2022. At least inflation metrics are improving and supplier delivery times are moderating, which the market is taking as a sign the Fed may not need to act so aggressively

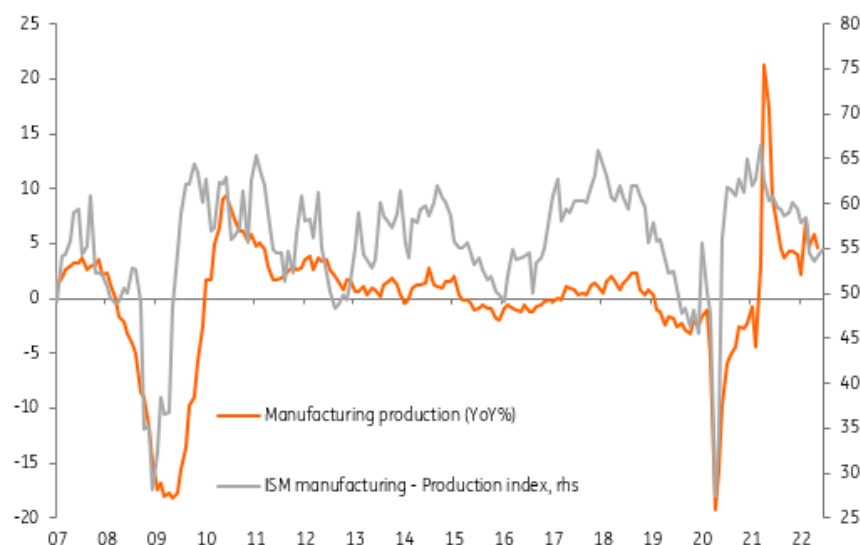


The June US ISM manufacturing index has come in at 46.0 - the worst reading seen since May 2020

Manufacturing shows signs of softening

The June US ISM manufacturing index has dropped to 53.0 from 56.1 (consensus 54.5) with new orders heading into contraction territory at 49.2 versus 55.1 previously - remember 50 is the break-even level with anything above in expansion and anything below signaling contraction.

US ISM manufacturing & production growth



Source: Macrobond, ING

Weaker orders look concerning

For now, production is holding up with the component index rising to 54.9 from 54.2, but with new orders contracting and the backlog of orders moderating (53.2 from 58.7) the direction of travel isn't looking good. Employment was also very soft at 47.3 versus 49.6 last time. Admittedly there are still a huge number of job vacancies in the sector, but such a poor figure will draw the conclusion that companies are becoming more pessimistic on their prospects. The ongoing weakness in the Chinese PMI doesn't bode well for the activity outlook either given the nature of global supply chains.

US ISM index versus the Chinese manufacturing PMI

* Chinese PMI temporarily plunged to 35.7 in February 2020 in reaction to the pandemic



Source: Macrobond, ING

Slowdown worries are spreading

There are some positives on the inflation side with prices paid slowing for the third consecutive month while supplier delivery times moderated, suggesting production bottlenecks are easing. Nonetheless, this report is unlikely to improve the mood ahead of the weekend.

Slowdown worries have already been highlighted this week by the large downward revisions to consumer spending data and the outright contraction in May and today's manufacturing numbers suggest that weakness is spreading to other parts of the economy. This won't deter the Fed from hiking aggressively in the near-term given their clear aim of getting inflation lower. However, it could contribute to less aggressive action later this year and increase the chances that the Fed ends up reversing course and starts cutting interest rates again in summer 2023.

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 <http://www.ing.com>.