US manufacturing pauses for breath

The ISM manufacturing index has slipped in July, but the underlying story remains robust

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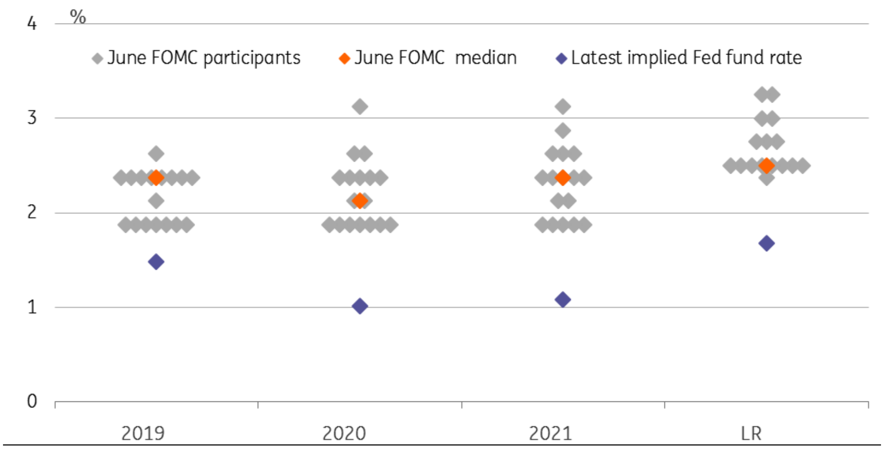
The US manufacturing ISM index for July dropped to 58.1 from June's 60.2 reading. The market consensus was anticipating 59.4 (survey of 67 analysts by Bloomberg), but it's important to point out that the headline index remains at incredibly strong levels. Indeed, the index remains above the average monthly reading in 2017 of 57.4, suggesting the period of above-trend GDP growth will continue.

The detail shows that output fell from 62.3 to 58.5 (a three-month low) while new orders slowed from 63.5 to 60.2 – the softest reading since May 2017. However, given 50 is the break-even level these are still very good numbers while the employment component rose to a four-month high of 56.5. This bodes well for Friday's US jobs report. As does the ADP employment number which was released earlier in the day. It showed payrolls growth of 219,000 versus expectations of a 186,000 gain.

The ISM report also showed that companies have been trying to clear their backlog of orders and in the process, have run down inventories significantly. In fact, the customer inventory index is at a seven-year low. As such we expect production to remain firm as these stock levels are gradually rebuilt in coming months.

Taking this all together, it is a slightly disappointing result, but we have been somewhat spoilt by some fantastic figures in recent months. We expect a certain loss of economic momentum in 2H18 due to tighter monetary policy and some nervousness regarding trade protectionism, but this report suggests the underlying story on the US economy is robust and that the Fed's gradual rate hike path remains sensible.

ISM manufacturing & GDP growth



Source: Macrobond

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