

US manufacturing shows signs of tariff concerns

The US manufacturing ISM report was disappointing with big drops in new orders and employment. Tariff uncertainty may be playing a role and is certainly prompting companies to factor in the risks within their pricing



US manufacturing activity is off to a disappointing start in 2025

More softness in US data

The disappointing start to 2025 for US economic data has continued today with renewed softness in the ISM manufacturing index. It dipped to 50.3 from 50.9 (consensus was 50.7) in February while January construction spending fell 0.2% month-on-month rather than the 0.1% decline expected.

Rather worryingly there are some huge drops in new orders and employment within the ISM report. Both fell into sub-50 contraction territory with new orders plunging from 55.1 to 48.6 while employment fell from 50.3 to 47.6. Production is still growing, but barely, recording a level of 50.7 versus 52.5 in January. Rather surprisingly the imports number showed only moderate growth (at 52.6) while inventories and customer inventories are both in contraction territory.

Trade uncertainty may be weighing on sentiment

This seemingly contradicts the trade numbers from last Friday, which recorded a 12% MoM surge in imports in January. That report indicated many manufacturers were trying to bring in imports before potential new tariffs are applied, but there is little evidence within this ISM report. That said,

the tariff effect is seemingly in play regarding prices paid, which jumped from 54.9 to 62.4, suggesting that longer term contracts are now reflecting the risk/uncertainty over input costs.

President Trump's trade proposals are for tariffs to raise tax revenue while also boosting the competitiveness of US made products and to incentivise the reshoring of manufacturing activity to the US. However, the stop-start/will he-won't he nature of tariffs is creating uncertainty with manufacturers seemingly concerned about the trading environment they will find themselves in – remember new tariffs on Mexican, Canadian and Chinese imports kick in tomorrow with the threat that additional tariffs on other nations come in during the second quarter. As such we expect to see ongoing subdued activity until there is at least some clarity on the domestic situation and the tariffs that US exports may be subject to by foreign nations.

Author

James Knightley

Chief International Economist, US

james.knightley@ing.com

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