

## US: Manufacturing's war of attrition

The ISM manufacturing survey has held at very strong levels, but there was a sharp drop in new orders, which could hint at frustration regarding supply chains. Pipeline price pressures are also rising once more and in an environment of decent corporate pricing power it is another reason the expect inflation to remain higher for longer



Source: Shutterstock

### Manufacturing shows its resilience

The October ISM manufacturing index dipped marginally from 61.1 to 60.8 (consensus 60.5), but this is still a good outcome. It is well above the 50 break-even level and shows that the economy continues to perform well despite the widespread supply chain issues and labour market shortages that plague the economy. It also showed that prices paid rose again with all 18 industry sectors experiencing rising energy costs and in an environment of robust corporate pricing power this is likely to be passed through to customers.

Looking at the details the production component remained very strong, in line with its 6M average at 59.3 with employment strengthening to 52.0 from 50.2. New orders slowed sharply from 66.7 to 59.8, but these are still very good levels. It may well be that if you know you are going to have to wait a long time to get whatever you order, given the extreme backlog of orders and long supplier delivery times, you may be somewhat discouraged from placing more orders right now.

## Durable goods orders and the ISM



Source: Macrobond, ING

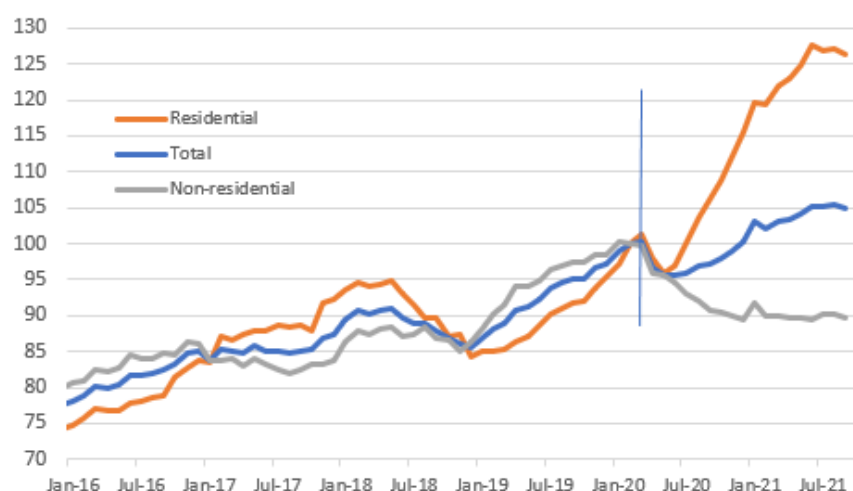
## Pricing power persists

The backlog of orders did indeed remain elevated at 63.6 while customer inventories are very low at 31.7. This means that the narrative of full order books and desperate customers facilitating corporate pricing power still holds. Consequently, the data remains consistent with firm growth and bubbling price pressures, which argues for the Federal Reserve to pull the trigger on QE tapering this week and conclude it far sooner than they have been hinting.

## Construction set to turn higher again soon

Meanwhile, the construction data is disappointing. Spending fell 0.5%MoM versus expectations of a 0.3% gain with non-residential spending falling 0.6%. This was largely expected with the surprise being the fact residential construction spending fell 0.4%. This should soon start to turn a lot higher given the recovery in home builder sentiment and the pick-up in mortgage applications for purchases - consensus seems to have this coming through more quickly, but housing construction can come with long lags at times.

## Construction spending levels (Feb 2020 =100)



Source: Macrobond, ING

### Author

**James Knightley**

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@ing.com)

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