1 October 2015

Flash Comment

Another weak US ISM manufacturing index

- The US manufacturing ISM for September declined to 50.2 from 51.1 versus 50.6 expected. New orders took another dive to 50.1 from 51.7. Customer inventories, which is our preferred measure in the survey, increased to 54.5 from 53.0 but the inventory index (for the manufacturing sector itself) was stable at 48.5. A further deterioration in the new order/customer inventory rate suggests further downside to the ISM in October.
- New export orders held steady at a very low 46.5, the weakest since July 2012, when the euro crisis was at its peak. August advance trade data showed a significant drop in exports of 3.2% m/m suggesting that the stronger US dollar and/or emerging markets weakness is putting downward pressure on the manufacturing sector. The employment index softened to 50.2 from 51.2 and we have pencilled in a 20,000 drop in manufacturing employment for tomorrow's non-farm payrolls report and stick to our estimate of 180,000 in overall job growth (see *US labour market monitor*, 28 September 2015).
- Our short-term ISM model and the 'new orders – customer inventories' differential both suggest an ISM around the 50 level in coming months, before heading higher. The weakness in the manufacturing sector is putting the Fed in a dilemma as the labour market and private consumption on the other hand are posting solid growth rates. With the unemployment rate likely to undershoot 5% by end this year, the pressure on the Fed to start the tightening cycle is building. However, remember that the Fed has never raised the Fed funds rate with the ISM below 50.8. ISM at the current level and heading for further weakness next month thus raises the risk that the Fed will once again postpone the rate hike at the December FOMC meeting.

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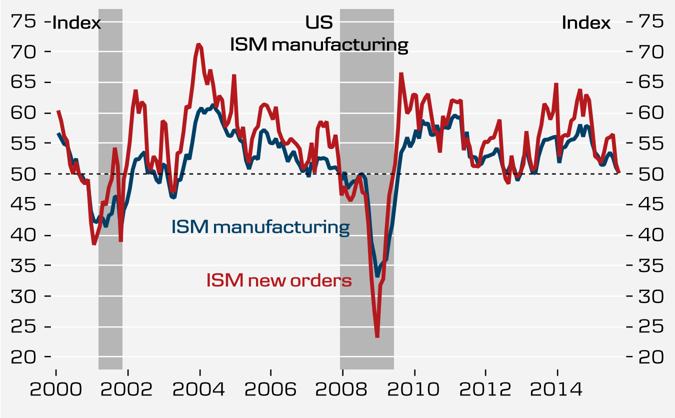
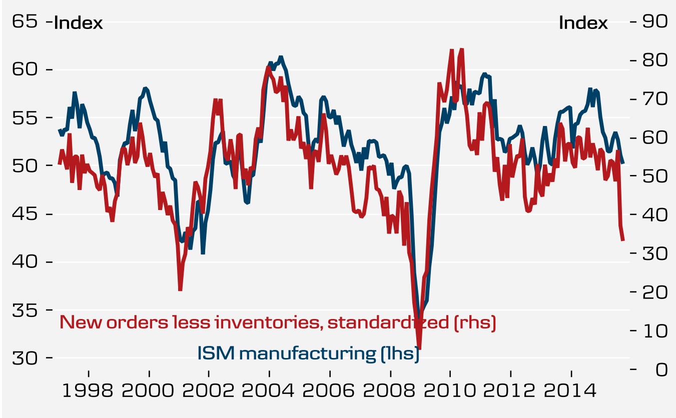
ISM chart book

New orders plunge...



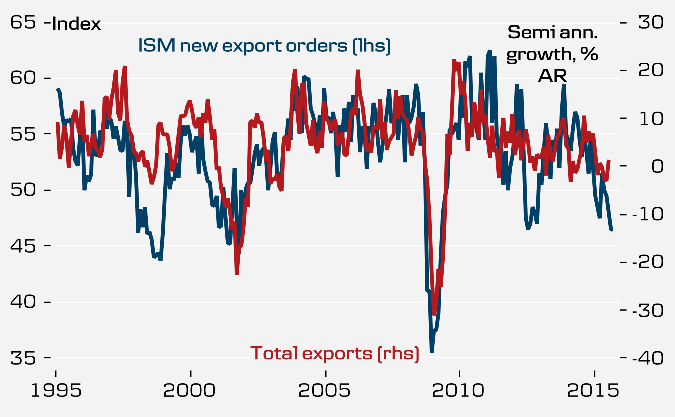
Source: ISM, Danske Bank Markets

...and inventories increase, suggest further decline in ISM



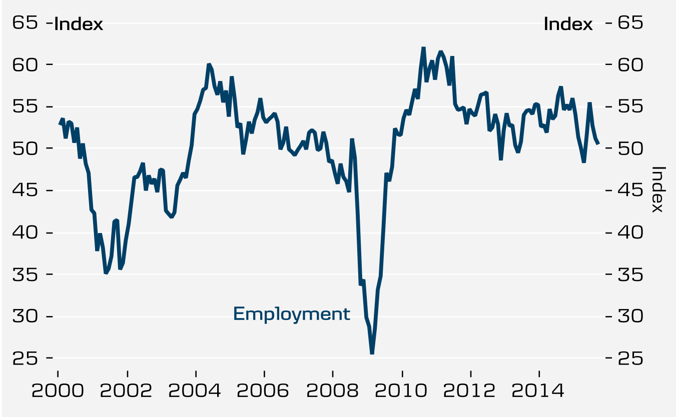
Source: ISM, Danske Bank Markets

New export orders weakest since the peak of the euro crisis



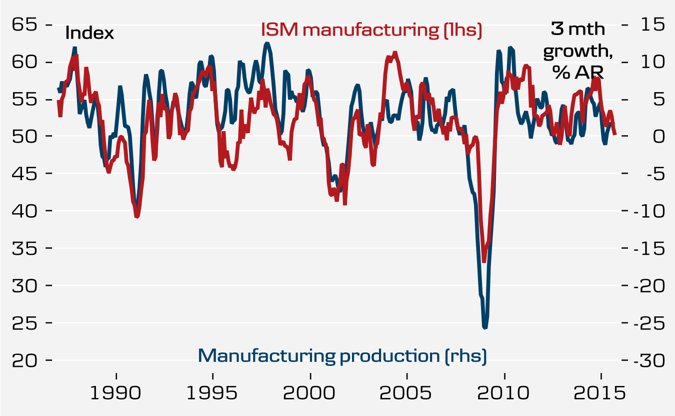
Source: ISM, Danske Bank Markets

Employment index decline but remains OK



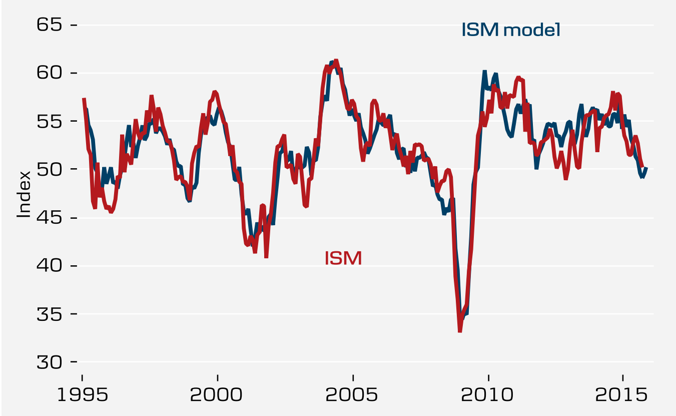
Source: ISM, Danske Bank Markets

ISM and manufacturing production



Source: ISM, Danske Bank Markets

Our model suggests the ISM would stay around 50 short term



Source: ISM, Danske Bank Markets

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