

U.S. Data Review

- ISM manufacturing: slowing growth in the factory sector
- Construction: broad-based softness led by residential

Lawrence Werther
Michael Moran

Daiwa Capital Markets America
lawrence.werther@us.daiwacm.com
michael.moran@us.daiwacm.com

ISM Manufacturing Index

The ISM manufacturing index dipped 0.2 index point in July to 52.8 (versus the expectation of a decline of 1.0 index point to 52.0). While the latest reading implied continued growth in the manufacturing sector of the economy, the measure has been trending lower since last fall and is off sharply from the 2021 average of 60.6.

The production index eased 1.4 index points in July to 53.5. Although it remained in positive territory, this component has cooled noticeably from last year's average of 61.0. Production has softened in response to soft order flows, as the new orders component has been declining since mid-2021 and has now been below the critical value of 50 for two consecutive months. The employment index increased to 49.9 from 47.3 despite slow orders and production. The softness in the employment component to a large degree reflects a limited supply of workers, as "an overwhelming majority" of survey respondents are hiring.

The supplier deliveries index made a negative contribution to the headline measure in July (-2.1 index points to 55.2), but the drop was a welcome development, as it signaled continued healing in supply chains. The measure is now at its lowest level since July 2020 and in the middle of the range of observations in the prior expansion.

The prices index fell 18.5 index points in July to 60.0 (versus the recent high of 87.1 in March); the latest drop was the fourth largest in the history of the series. The ISM report indicated that volatility in energy markets, softening in metals prices, and a decline in demand for chemicals contributed importantly to the easing in price pressure.

Construction

Total construction activity fell 1.1 percent in June, a notable contrast to an expected increase of 0.2 percent. Private residential building led the decline with a retreat of 1.6 percent, as a drop of 3.1 percent in single-family activity easily offset a gain of 0.4 percent in the multi-family sector. Improvement to existing homes also contributed to the softness with a dip of 0.3 percent. The decline in private residential construction ended a string of 24 consecutive increases.

The two other major components of the report also fell, with private nonresidential building and government-related activity both declining 0.5 percent. The drop in the private nonresidential construction represented the fourth consecutive decline, while government-related building fell for the second straight month. The reported declines in June undoubtedly will translate to much sharper falls in real terms, as construction costs have been surging in recent months. For example, new home construction costs rose 1.5 percent in June and have averaged increases of 1.3 percent in the past six months.

ISM Manufacturing: Monthly Indexes

	Mar-22	Apr-22	May-22	Jun-22	Jul-22
ISM Mfg. Composite	57.1	55.4	56.1	53.0	52.8
New orders	53.8	53.5	55.1	49.2	48.0
Production	54.5	53.6	54.2	54.9	53.5
Employment	56.3	50.9	49.6	47.3	49.9
Supplier deliveries	65.4	67.2	65.7	57.3	55.2
Inventories	55.5	51.6	55.9	56.0	57.3
Prices paid*	87.1	84.6	82.2	78.5	60.0

* The prices paid index is not seasonally adjusted. The measure is not part of the ISM manufacturing composite index.

Source: Institute for Supply Management via Haver Analytics