

# U.S. Data Review

- ISM manufacturing: new orders and employment below 50
- Construction: soft single-family housing; nominal dips in business and gov't sectors

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## ISM Manufacturing Index

The ISM manufacturing index eased 1.9 index points in September to 50.9 (versus the consensus expectation of a dip of 0.8 index point to 52.0). Although the headline index remained above 50, indicating continued expansion in the manufacturing sector, it has eased sharply from last fall and posted its lowest reading since May 2020 when the economy was just emerging from pandemic-related shutdowns. The rapid tightening in financial conditions associated with the Fed's campaign of higher interest rates has weighed heavily on the factory sector.

The production index edged higher in September (+0.2 index point to 50.6), but it has cooled sharply since the early months of the year, and it is well below the average of 61.0 in 2021. Moreover, the ISM report indicated "concern about demand beyond the near term." Concern likely was generated by sluggish new orders, which were below 50 for the third time in the past four months (-4.2 index points in September to 47.1). The employment index also fell back below 50 (off 5.5 index points to 48.7). In prior months, firms struggled to fill positions and encountered high rates of employee turnover, but the latest release indicated that more firms were implementing hiring freezes.

The supplier deliveries index eased 2.7 index points in September to 52.4, signaling continued supply-chain repair and a return to more normal conditions. The measure has fallen sharply from an average of 72.8 last year and 64.4 in H1, and it is now comparable to readings in the middle of the range from the previous expansion.

The prices index continued its retreat from a recent high of 87.1 in March, slipping 0.8 index point after a cumulative drop of 26 points in the prior two months. Moderating price pressure in energy markets, as well as softening in metals markets and sluggish demand for plastics and chemicals, were cited as drivers of easing price pressure.

## Construction

Total construction activity fell 0.7 percent in August, softer than the expected decline of 0.3 percent. Private single-family home building stood out with a retreat of 2.9 percent, the third consecutive sizeable decline. Multi-family activity rose modestly (0.4 percent), offsetting a similar-sized drop in the prior month and preserving a sideways trend. Improvements to existing homes continued to trend upward. Private nonresidential construction dipped 0.1 percent, matching the shift in the prior month. However, revised data show a sizeable gain in June (up 2.6 percent), which has left a solid performance in the past three months combined. Building by state and local governments fell 0.4 percent, but the drop followed strong gains in the prior two months and did little damage to the upward trend. Government construction at the federal level tumbled 6.6 percent, severely damaging what had been a flat trend.

The results noted above all involve changes in nominal terms. Translations to real activity will likely lead to notably softer results, as construction costs have been under pressure. For example, an index of the cost of single-family home construction rose 1.0 percent in August and has climbed 17.2 percent in the past year.

## ISM Manufacturing: Monthly Indexes

	May-22	Jun-22	Jul-22	Aug-22	Sep-22
<b>ISM Mfg. Composite</b>	56.1	53.0	52.8	52.8	50.9
<b>New orders</b>	55.1	49.2	48.0	51.3	47.1
<b>Production</b>	54.2	54.9	53.5	50.4	50.6
<b>Employment</b>	49.6	47.3	49.9	54.2	48.7
<b>Supplier deliveries</b>	65.7	57.3	55.2	55.1	52.4
<b>Inventories</b>	55.9	56.0	57.3	53.1	55.5
<b>Prices paid*</b>	82.2	78.5	60.0	52.5	51.7

\* 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