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Economics Group

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ISM: Sugar High Is Wearing Off

The manufacturing ISM came in at 54.8 for April—well below expectations as the gap gets smaller between once-soaring soft economic data, like surveys, and generally weak output measures, or hard data.

Soft Serve with a Dip

Since the start of 2017, one of the top questions we get from clients has to do with the gap between hard and soft data. Our take then and now is that the euphoria reflected in the soft data overstates the health of the economy and that without big gains in productivity or labor force participation, the speed-limit for real GDP growth is just a bit faster than 2 percent.

Many purchasing manager surveys and measures of consumer and business confidence have jumped to multi-year highs since the start of this year. In the case of the NFIB's measure of small business confidence, the level reached in January was the highest in 13 years. Yet, actual hard measures like industrial production and factory orders have been weaker. Last week we learned that GDP, the most widely-followed measure of output, posted growth of just 0.7 percent at an annualized rate in the first quarter.

Today's print for the ISM of 54.8 was the third consecutive monthly decline and was lower than consensus expectations for a print of 56.5. To be clear, 54.8 is still a solid number and consistent with our outlook for gradual firming in the manufacturing sector. The multi-year high of 57.7 reached in February would be consistent with a much-stronger rate of growth than we have been forecasting, so the return to a more sustainable pace of expansion suggested in this report for April is consistent with our forecast.

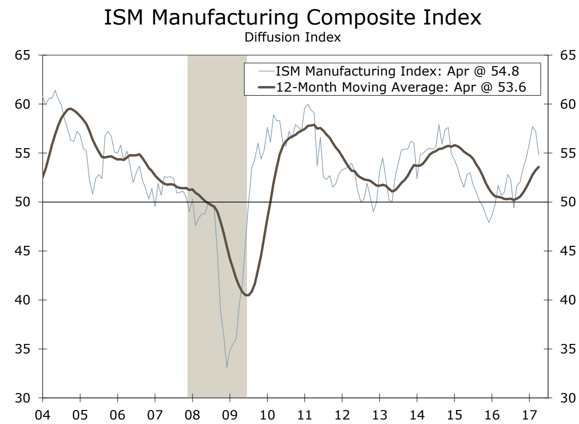
The most pronounced move among the various subcomponents was the 7.0 point swing lower for orders to 57.5 from 64.5 previously. Although 57.5 is still consistent with steady growth in factory orders, the momentum shift is disconcerting—particularly after the tepid 0.2 percent monthly gain in core capital goods orders in last week's durable goods report for March.

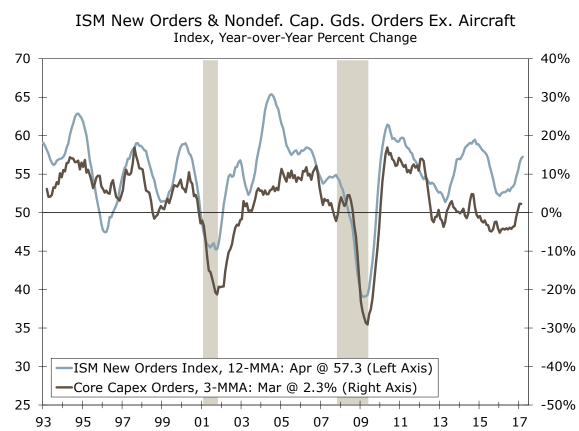
The dip in the employment component was almost as large, as it fell 6.9 points to just 52.0. The employment index is now at its lowest level since before the election. The weakness there might suggest some downside risk for Friday's jobs report. As of this writing, our forecast of 190K net new jobs remains intact, but we'll be watching the ISM non-manufacturing report on Wednesday to see if this slower employment growth trend is also evident in the service sector.

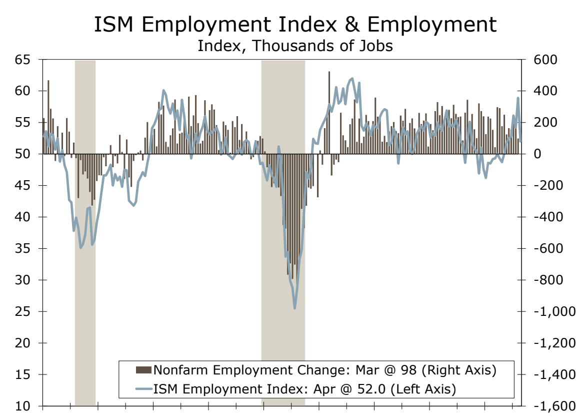
Not All Bad News

For a report that fell well short of expectations, particularly in the key orders and employment components, it was not all bad news. The comments were almost universally positive, but perhaps more qualified than a few months ago. One respondent, for example, noted that "world/political headlines cause personal anxiety, business conditions remain solid."

To sum up, the weakening trend in soft data like the ISM is not particularly troubling and is consistent with our forecast for only modest GDP growth.







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