

U.S. Data Review

- ISM: above 50; soft orders, but respectable employment and production
- Construction: all three components decline (residential, private nonresidential, public)

Michael Moran
 Daiwa Capital Markets America
 212-612-6392
 michael.moran@us.daiwacm.com

ISM Manufacturing Index

The ISM manufacturing index dipped 0.4 percentage point in June to 51.7 percent. We hesitate to call this a firm report, but it was better than the consensus estimate of 51.0 percent and much better than soft readings on regional measures (Chicago PMI, for example, fell 4.5 percentage points to 49.7 percent). We are relieved that the index remained above 50 percent.

The orders component was soft in June, easing 2.7 percentage points to 50.0 percent. This measure was above 60 percent during much of 2017 and 2018, but it started to lose ground in the closing months of last year and has now moved to the low end of the range from the past several years (chart; two readings in 2015 were slightly below 50 percent).

Although orders flows were soft, production held up well in June, with this component increasing 2.8 percentage points to 54.1 percent. The latest reading paled in comparison with the average of 60.7 percent in 2018, but it was respectable relative to long-run historical standards. The employment index also performed reasonably well, increasing 0.8 percentage point to 54.5 percent. The employment index was below the averages of almost 57 percent in 2017 and 2018, but the current level was still suggestive of firm hiring.

The inventories and supplier delivery components posted soft results, dropping 1.8 and 1.3 percentage points, respectively). The inventories index fell below the critical value of 50 percent (49.1 percent), and the supplier delivery index was only slightly above this threshold (50.7 percent). The price index (not a component of the headline measure) also was soft, dropping 5.3 percentage points to 47.9 percent.

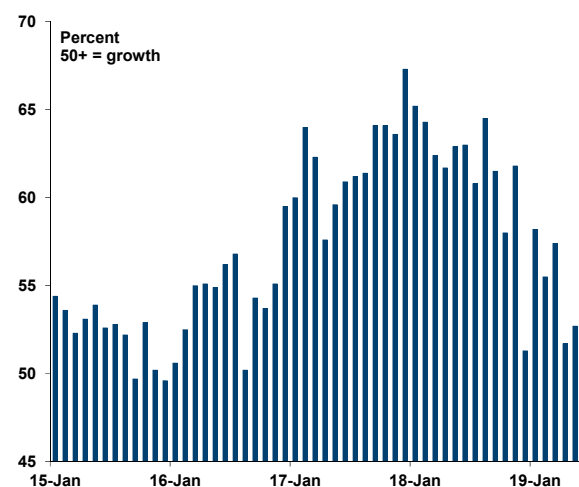
ISM Manufacturing -- Monthly Indexes

	Feb-19	Mar-19	Apr-19	May-19	Jun-19
ISM Mfg. Composite	54.2	55.3	52.8	52.1	51.7
New orders	55.5	57.4	51.7	52.7	50.0
Production	54.8	55.8	52.3	51.3	54.1
Employment	52.3	57.5	52.4	53.7	54.5
Supplier deliveries	54.9	54.2	54.6	52.0	50.7
Inventories	53.4	51.8	52.9	50.9	49.1
Prices paid*	49.4	54.3	50.0	53.2	47.9

* 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

ISM Manufacturing: New Orders Index



Source: Institute for Supply Management via Haver Analytics

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo ("Daiwa Securities") and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.

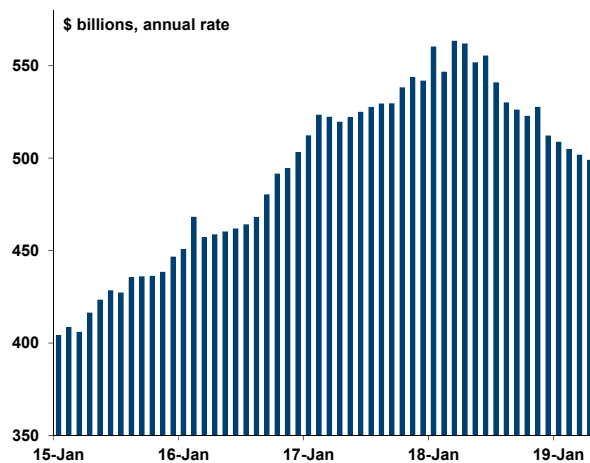
Construction

Total construction activity fell 0.8 percent in May. Results in the prior two months were revised upward by the equivalent of 0.4 percent, but the report on balance was still slightly softer than the expected reading of no change.

All three components contributed to the drop in the headline measure. Private residential construction fell 0.6 percent, continuing the downward trend that began in the spring of last year (chart, left). Construction of multi-family housing has moved higher over this span, but the building of new single-family units and improvements to existing homes have weakened. Private nonresidential construction fell 0.9 percent. This area has fluctuated within a narrow range since early 2018, showing little net change. Government-sponsored activity fell 0.9 percent in May. The drop represented only a small offset to pronounced gains in the prior four months, leaving activity at an elevated level (chart, right).

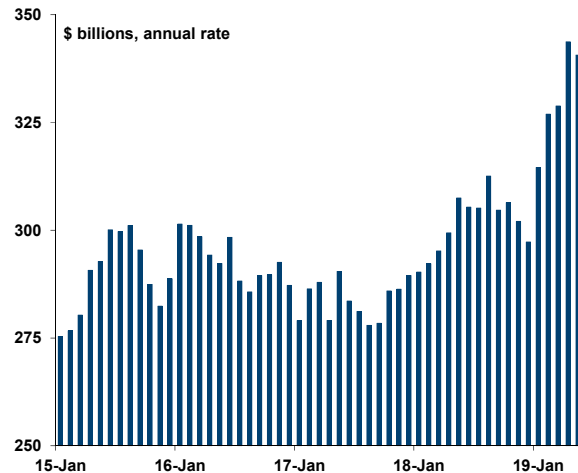
The figures in total suggest a small contribution to economic growth from construction, with activity at the government level (mostly state and local) offsetting softness in residential and private nonresidential construction.

Private Residential Construction



Source: U.S. Census Bureau via Haver Analytics

Public-Sector Construction



Source: U.S. Census Bureau via Haver Analytics