US manufacturing remains robust, but jobs market stays subdued

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Another firm ISM manufacturing index boosts confidence in the durability of the recovery in the sector, fuelled by the ongoing surge in tech-related capital expenditure. However, the economy continues to create limited numbers of jobs with wage pressures remaining remarkably benign

In terms of today's US data, the August ISM manufacturing index is a touch softer than expected at 54.6 in August, down from 55.6 (consensus 55.2). The 50 mark separates expansion from contraction: the further the index rises above 50, the faster the pace of growth, while readings below 50 indicate contraction, with lower values signalling a steeper decline.

In terms of the details, the production index remains in very strong growth territory at 58.3, historically consistent with GDP growth of close to 3%. New orders slipped to 53.7 from 56.7, the weakest reading since March, while employment moderated to 51.2 from 52.8, but remains clear of the 6M average of 49.6. In general, the activity metrics underscore the improvements seen in the manufacturing sector, which is in large part a consequence of the surge in tech related investment spending. The downside is the prices paid component remains very firm at 71.1, indicating input costs, such as energy, commodities and semiconductors, continue to increase at a rapid pace. Overall, there is nothing in this report to moderate market pricing over a Federal Reserve rate hike later in the month - that currently stands at 16bp of a potential 25bp hike.

Meanwhile, the July job opening numbers rose to 7271k from a significantly downwardly revised June print of 7182k (originally reported as 7359k). However, this report is volatile and historically tracks the Indeed job posting website daily data. Today, the Indeed figures are consistent with job openings of around 7000k, which points to renewed moderation in job openings in coming months.

Layoffs remain very low, but so too are the hiring numbers. This low hire, low fire economy means the churn rate, as measured by the quits rate – the proportion of workers quitting to move to a new job – dipped back to just 1.9%. That level is historically consistent with sub-3% year-on-year wage growth. Given that the biggest cost input for corporate America is workers, this should mitigate higher costs elsewhere. It also implies that real household disposable incomes, which have flatlined for the past 18 months, are not going to head higher anytime soon. To us, this suggests that if the Fed does hike rates in September, there isn't the need for a series of hikes.

Source: https://think.ing.com/snaps/us-manufacturing-remains-robust-but-jobs-market-stays-subdued/