

# Flash Comment

## US: ISM edges higher, but more slowdown ahead

- ISM edged higher to 56.3 in August boosted by employment and production.
- The employment index is consistent with manufacturing payroll gains of 50,000.
- The report indicates that the slowdown remains orderly and highlights the manufacturing sector as a continuing growth engine.
- We expect further declines in the ISM index in the coming months, but see limited risk that the index will plunge below 50.

### Details

While there was both good and bad news embedded in the report, the overall impression was much better than expected.

One of the bright spots was the employment index, which rose to 60.4 from 58.6. This is the highest level since December 1983. This highlights that productivity in the manufacturing industry is now very squeezed, which has lowered the bar for new hiring. The current level of the index is consistent with manufacturing payroll gains of about +50,000 per month. Hence, today's ISM adds some upside to the Friday's payroll report.

The other bright spot was the production index, which rose to 59.9 from 57.0. We have mentioned previously that the unrest in the market around springtime due to the euro debt crisis might have resulted in some front-loading of the manufacturing slowdown. This might explain the pick-up in August, as a payback to the cautiousness created by the euro jitters.

However, the forward-looking details continue to point toward further slowing in the manufacturing index in the coming months. The new orders index edged slightly lower (53.1 vs. 53.5) while there were gains in both the inventory index (51.4 vs 50.2) and the customers inventory index (43.5 vs 39.0). This implies a further deterioration in the inventory vs orders balance, which suggests that the ISM composite will resume its downward trend in the coming months.

### Assessment and outlook

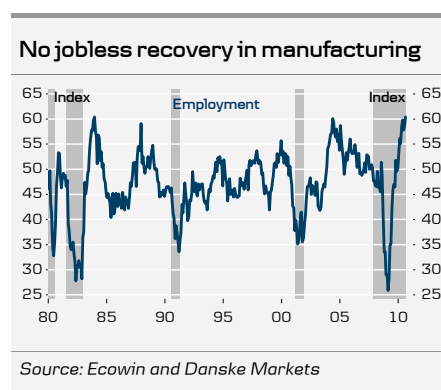
Today's reading was comforting as it indicated that the economic slowdown remains relatively orderly. That said, fundamentals continue to be consistent with a further slowdown in manufacturing growth. However, a more gradual slowdown definitely improves the odds for the needed growth rotation into the service and construction sector.

While our models forecast a level of around 53 by year-end, we continue to see a risk of a slightly accelerated pace decline and expect the index to approach 50 by year turn.

The risk of a deep manufacturing slowdown remains very limited if the current moderate expansion in underlying demand (excl. housing) continues. Furthermore, there are no signs of overshooting in the current manufacturing cycle as inventories of finished manufacturing are still declining.

ISM (August)				
	Act	Con	DB	Last
ISM	56.3	52.8	53.6	55.5
Prices	61.5	55.5	57.5	57.5

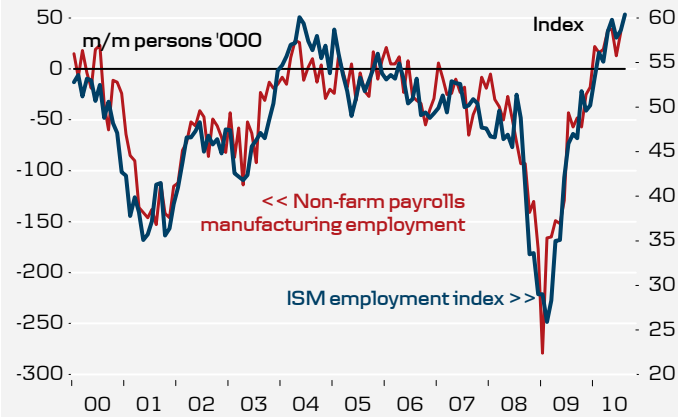
Source: Bloomberg and Danske Markets



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Employment index reaches highest level since 1983



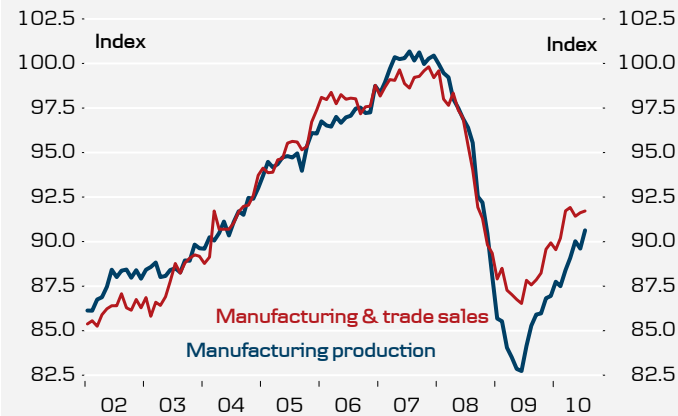
Source: Ecowin and Danske Markets

Forward looking details remains consistent with further declines



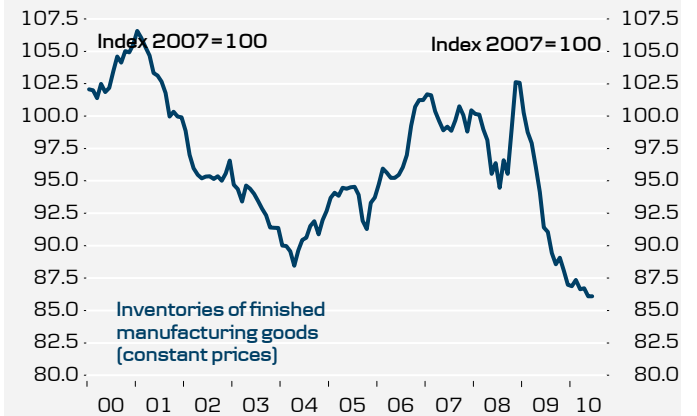
Source: Ecowin and Danske Markets

Little signs of overshoot in manufacturing production



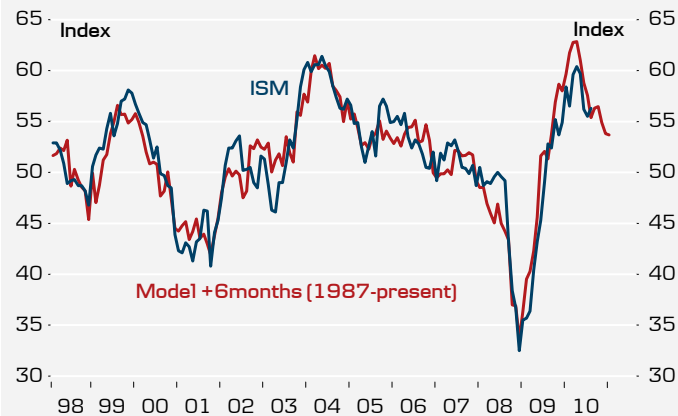
Source: Ecowin and Danske Markets

Inventories of finished goods are still declining



Source: Ecowin and Danske Markets

ISM model continues to signal moderate slowing



Source: Ecowin and Danske Markets

Manufacturing production still going strong



Source: Ecowin and Danske Markets

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