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TD Economics

Data Release: U.S. manufacturing activity lets off some steam in July

- The Institute for Supply Management (ISM) manufacturing index took a breather in July, giving back 0.6 points for a 52.6 reading in July. The print was a touch below the market expectation, which called for a smaller pullback to 52.9. The July survey marks the fifth consecutive month of expanding manufacturing activity.

- Slower activity was observed in six of ten components in July. The largest slowdown was in prices (-5.5 to 55.0), which slowed for the second consecutive month, suggesting that raw material price pressures have eased since their recent spike this past May. Both the backlog of orders (-4.5 to 48.0) and employment (-1.0 to 49.4) subcomponents fell back into contractionary territory after advancing briefly in June. Other indicators that saw slower growth in July include supplier deliveries (-3.6 to 51.8), and new orders (-0.1 to 56.9).

- There was some positive news in the July release. Production activity increased in the month (+0.7 to 55.4), marking its highest level since January 2015.

- Trade indicator subcomponents improved but at a slightly slower pace in July. Exports grew at the same pace as April and May (-1 to 52.5), while imports held steady at 52.0.

- Eleven of the eighteen manufacturing industries reported growth in July – down from thirteen in June. Seven industries reported a contraction in activity in July – Apparel, Leather & Allied Products; Electrical Equipment, Appliances & Components; Plastics & Rubber Products; Machinery; Primary Metals; Transportation Equipment; and Paper Products.

Key Implications

- On the surface the July report continues to show a resilient U.S. manufacturing sector, which has managed to expand for five consecutive months despite facing strong headwinds of weaker foreign demand and dollar strength. However, the pullback in forward looking indicators this month (employment, new orders, and order backlog) all point to a cautious sector, as some firms attempt to quantify the expected impact of the UK referendum and the U.S. presidential race on their industries.

- The improvement in factory activity this year has been underpinned by robust consumer spending and some stabilization in the energy sector. External headwinds emanating from strong dollar and weak global demand have also abated somewhat. Nevertheless, the drag on growth from weaker net trade could build later this year given the renewed pressure on the dollar following the UK referendum result.

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