TD Economics

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Data Release: U.S. manufacturing remains under pressure in Feburary, as port slowdowns and weak external demand weigh

- The Institute for Supply Management (ISM) manufacturing index fell 0.6 points to 52.9 in February. The reading was nearly on point with consensus, which called for a 53.0 print.
- Most sub-components experienced sharp drops, with production (-2.8), employment (-2.7), imports (-1.5) and exports (-1.0) leading the declines. Prices paid remained unchanged at 35.0, indicating continued deflation in industrial inputs.
- Backlog of orders (+5.5), customer inventories (+4.0), and supplier deliveries (+1.4) led the gains across sub-components.
- The spread between new orders and inventories – which tends to lead the headline index by about three months – pulled back to zero.

Key Implications

- Today's report was somewhat disappointing, but appears to be heavily affected by work slowdowns and uncertainty looming over West Coast ports – where much of the industrial inputs used by American manufacturers arrive. The recent agreement should help port activity rebound, but delays related to previous disruptions will likely continue for several months.
- Additional downward pressure on domestic industry stems from lukewarm global demand. Manufacturing activity across the Eurozone remains weak and is expending only slowly. At the same time, Chinese factory activity appears to have contracted for the second month in a row. Weakness in Europe and China has prompted the PBOC to lower interest rates with more cuts likely on the way, while the ECB is beginning its quantitative easing program this month. These measures should manifest in stronger growth, but will likely take time to manifest in improved global demand.
- Weak global demand and port disruptions notwithstanding, U.S. manufacturing remains supported by an increasingly resilient domestic recovery. Still, U.S. consumers – benefitting from a combination of falling gasoline prices, low interest rates, and an improving job market – will continue to drive economic growth, benefitting manufacturing activity in the U.S. and beyond.

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