

US ISM Says That North American Supply Chains Remain Strong

ISM manufacturing, August:

Actual: 61.3

Scotia: 57.2

Consensus: 57.6

Prior: 58.1 (unrevised)

- There is nothing quite like a strong upside beat in the US economy the day before a Bank of Canada decision.** If the BoC is truly data dependent, then they should seek comfort in evidence that North American supply chains are resilient in the face of NAFTA negotiations. I think that's the main takeaway for many of Scotia's clients at this time. To the extent to which US manufacturing conditions back into Canada and perhaps with the added assist of the unidirectional bet against the C\$, we should have a concomitant degree of comfort in the outlook for Canadian manufacturing and exports into Q3. The US 2 year yield increased 1bp and the USD on a DXY basis ticked higher post-release.
- The headline reading of 61.3 is the highest since May 2004.** It has risen by a whopping 13.5 points since the start of 2016 as the upward trend a) began before the US election and b) has been resilient to trade policy irritants.
- The employment subcomponent climbed by two points to 58.5 which is the highest since February.** It is 4.3 points highest than the recent low set in April and only 1.3 points below the recent high that was set last October which was the highest reading since 2011.
- The new orders book spiked up by 5.1 points to 65.1. That ties it with August 2014 for the second strongest reading of the post-GFC era** behind only last December's 67.4 print. Strength is showing up in the domestic order book as new export orders were flat at 55.2, signalling still modest growth in foreign orders.
- Production also jumped by just under five points to 63.3.** The order backlog increased by just under three points to 57.5. Everything about production momentum was therefore positive from the order backlog to current production and to production stemming from new orders and that points to continued momentum in broad manufacturing conditions ahead.
- Prices paid slipped by 1.1 points but remain very strong at a reading of 72.1 which continues to demonstrate strong price pressures in US manufacturing. The increase in those pressures preceded tariffs but includes the effects of higher commodity prices and tightening overall economic capacity constraints.
- All of the increases in the various subcomponents reflect strong breadth across manufacturing subsectors. 89% of all industries report growth, 72% report faster new orders, 89% faster production, 56% increased hiring (albeit down from 72% the prior month) and 89% report higher prices paid.
- Also note that construction spending roughly met expectations. Spending was revised up to a 0.8% decline in June (-1.1% initially) and so the 0.1% rise in July that missed the 0.4% consensus is fully explainable by the upward revision.

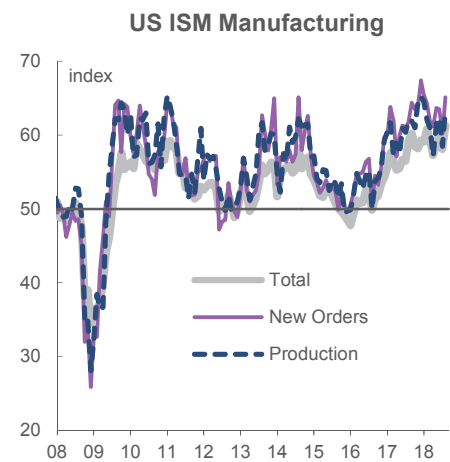
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