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April ISM Manufacturing Index: Giving Back Gains, But Still Expanding

- > The ISM Manufacturing Index fell to 50.8 percent in April.
- > The new orders component fell to 55.8 percent, the employment component rose to 49.2 percent, and new export orders rose.

After ending a string of five consecutive months in March, the manufacturing sector gave back some of those gains in April but nonetheless continued to expand. The ISM Manufacturing Index slipped to 50.8 percent in April from March's reading of 51.8 percent but remained above the 50.0 percent break between contraction and expansion. April's headline print was below consensus expectations of 51.5 percent but was slightly ahead of our forecast of 50.6 percent. While both the index itself and comments from survey respondents indicate conditions across most of the factory sector are stabilizing, there is as of yet no corroboration in other key data series, such as industrial production and orders for core capital goods. As such, even though April marks the second straight months of a headline print of over 50 percent, we consider the signals being sent by the ISM Manufacturing Index to be somewhat tentative.

Of the 18 industry groups included in the ISM survey, 11 reported growth in April which is down from 12 in March but still encouraging in that it indicates a fairly broad based stabilization taking hold. In April four of the 18 industry groups reported contraction, down from five in March. Comments across a range of industries report either slight increases in demand, some consistent with seasonal pick-ups in activity, while other respondents point to steady if still slow growth in demand.

The new orders index slipped to 55.8 percent in April, down from 58.3 percent in March but still a solid number. We noted last month we thought the new orders index overshot the mark to the upside and expected some give back in April, which proved to be the case. Still, 15 of the 18 industry groups reported rising new orders in April, while the textile mills industry group was the only group to report a decline in orders. We had the same take on the current production index in March, i.e., the increase reported in the ISM data was a bit overstated and as such we expected a lower reading in April. So, while the current production index did slip to 54.2 percent from 55.3 percent in March, it is still a strong reading. And, 15 of the 18 industry groups reporting higher levels of production with only textile mills and petroleum & coal products reporting a decline in production levels.

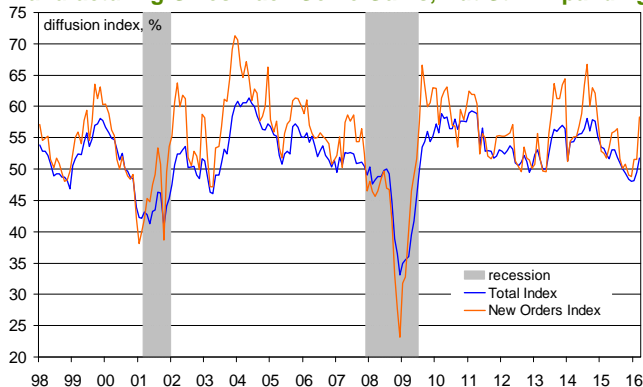
While the ongoing inventory correction may not have entirely run its course, it looks to be most of the way there. Inventories of raw materials amongst producers slipped further in April, while customer inventories were deemed "too low" for a third consecutive months. Lower customer inventories are supportive of rising orders and production, as is borne out elsewhere in the ISM data. Still, while the employment index rose slightly in April, it remains below the 50 percent mark, indicating some modest downward pressure on manufacturing payrolls. But, should orders continue to expand it seems likely the recent run of declines in factory payrolls will come to an end, though any subsequent hiring will likely remain modest. New export orders expanded for a second consecutive month in April. As we noted in March, however, we will need to see this run extended further before we are comfortable that global economic growth is on the right track.

One development that came with little advance warning was the reversal in the prices paid index which, after having jumped from 38.5 percent in February to 51.5 percent in March, rose further in April. At 59.0 percent, the prices paid index now stands at its highest level since September 2014, with 12 of the 18 industry groups reporting paying higher prices for inputs. The main question now is to what extent these higher input prices make their way through to higher prices on the retail level.

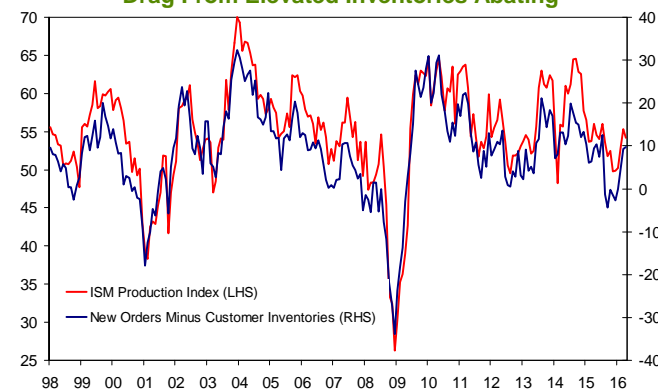
As noted above, the recent improvement in the ISM Manufacturing Index is encouraging, but we await corroboration from other data series before drawing any firm conclusions as to the health of the factory sector.



Manufacturing Gives Back Some Gains, But Still Expanding




Drag From Elevated Inventories Abating




Price Pressures Continue To Build

