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June ISM Manufacturing Index: No June Swoon For ISM Manufacturing Index

- > The ISM Manufacturing Index rose to 57.8 percent in June from 54.9 percent in May.
- > The new orders component rose to 63.5 percent, the employment component rose to 57.2 percent, and new export orders rose.

Rather than wilting in the summer heat, the manufacturing sector perked up in June. The ISM Manufacturing Index rose 57.8 percent in June, easily topping the consensus forecast of 55.0 percent and our above-consensus call of 55.6 percent, and June marks the tenth consecutive month in which the headline index was above the 50.0 percent break between expansion and contraction in the factory sector. The underlying details as well as comments from survey respondents are generally positive; more notably, as the expansion in the factory sector has endured, it has become increasingly broad based, which has not always been the case in the post-recession years.

For a second consecutive month 15 of the 18 industry groups included in the ISM's survey reported expansion in June, with three reporting contraction. Over the past ten months in which the headline index has been above 50.0 percent, the number of industry groups reporting growth has steadily climbed higher, which is an encouraging sign as to the durability of the expansion in the factory sector. Comments from survey respondents point to steadily rising demand, difficulty finding qualified labor, and increasing pricing pressures for commodities. Also of note is that respondents from several industry groups pointed to firmer global demand, consistent with a growing list of signs of improving global economic growth.

While our forecast had assumed higher readings on the indexes for new orders and current production, both easily topped our expectations, The index for new orders jumped to 63.5 percent in June after having slipped to 59.5 percent in May. Fifteen of the 18 industry groups reported higher order volumes in June, the exceptions being textiles, apparel, leather, & allied products, and primary metals. The index of current production also rebounded after having slipped in May, and now stands at 62.4 percent, with 14 of the 18 industry groups reporting higher output levels. The ISM's index for employment rose to 57.2 percent in June, with 14 of the 18 industry groups reporting higher head counts. The index for new export orders rose to 59.5 percent in June, marking the 16th consecutive month of growth in new export orders. In this sense, the ISM's gauge of new export orders was well ahead of other indicators of improving global economic growth. The recent softening of the U.S. dollar should provide additional support for growth in U.S. exports over coming months.

Suppliers to manufacturing entities fell further behind in June, which is actually indicative of the manufacturing sector moving ahead. Supplier deliveries got slower in June, with the ISM's gauge of delivery times rising to 57.0 percent, making June the 14th consecutive month in which supplier deliveries have slowed. Still, one component of the June data worth watching is the index of customer inventories – for the first time in eight months manufacturers deemed their customer inventories to be too high, with the ISM's measure rising to 50.5 percent in June. This is right on the border between customer inventories being too high and being too low, and only 5 of the 18 industry groups deemed customer inventories to be too high, but it is nonetheless a data point worth watching over coming months. If customer inventories do continue to climb, it would follow that manufacturers would see lower order volumes which ultimately would translate into diminished output. For now, though, manufacturers are contending with quite the opposite problem, i.e., how to fill what are increasingly large order backlogs. The ISM index of order backlogs rose to 57.0 percent in June, the fifth consecutive month in which backlogs expanded. Twelve industry groups reported higher order backlogs in June with three reporting smaller backlogs.

It is worth noting the ISM survey is still well ahead of "hard" data such as industrial production and core capital goods orders. In addition, a slowdown in motor vehicle sales and trade policy pose downside risks. For now, though, the U.S. manufacturing sector is on a nice roll, buoyed by rising domestic and foreign demand.

