ECONOMIC UPDATE

REGIONS

August 1, 2017

July ISM Manufacturing Index: Steady, Broad Based Expansion Continues

- The ISM Manufacturing Index fell to 56.3 percent in July from 57.8 percent in June.
- The new orders component fell to 60.4 percent, the employment component fell to 55.2 percent, and new export orders rose.

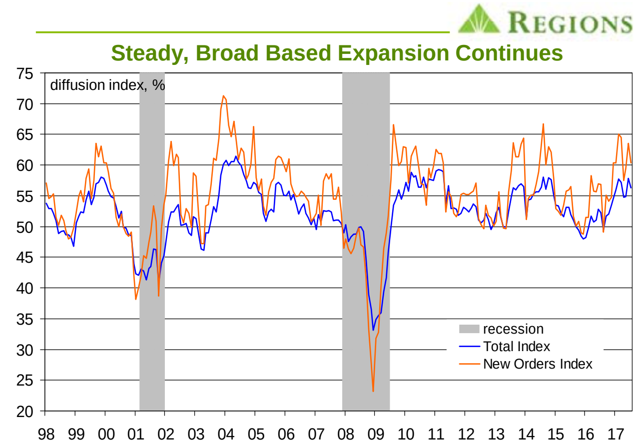
The ISM Manufacturing Index slipped to 56.3 percent in July, matching our slightly below consensus forecast. As we anticipated would be the case, many of the underlying components that posted sizeable increases in the June data gave back some of those gains in July, which pushed the headline index lower. Still, the bottom line remains the same – July marks the 11th consecutive month in which the headline index was above the 50.0 percent break between expansion and contraction in the factory sector. Additionally, as it has endured the expansion in the factory sector has become more broad based, which has not always been the case in the post-recession years.

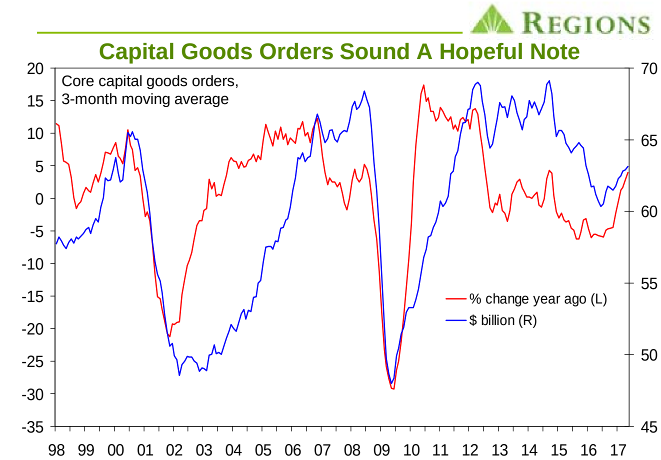
July marks the third consecutive month that 15 of the 18 industry groups included in the ISM's survey reported expansion. This goes to our point about the expansion becoming increasingly broad based, as over the past 11 months in which the headline index has been above 50.0 percent, the number of industry groups reporting growth has steadily climbed higher. This breadth suggests the expansion in the factory sector will endure, which is noteworthy given that motor vehicle production figures to soften over coming months. The ISM data, however, suggest that the motor vehicle industry group won't take the broader factory sector down with it, which earlier in this cycle would not have been the case given how motor vehicle production was one of the very few drivers of growth in manufacturing. Yes, that bad pun you just read was intentional on our part. In any event, comments from survey respondents in July point to steadily rising demand, and difficulty finding qualified labor. 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.

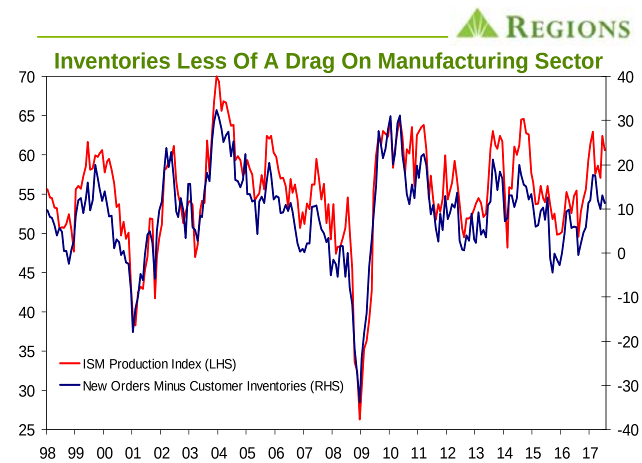
As noted above, though many of the underlying components slipped in July they remain at elevated levels. For instance, the index for new orders fell to 60.4 percent in July after having jumped to 63.5 percent in June, but as can be seen in our top chart the new orders index remains notably high. Fourteen of the 18 industry groups in the ISM's survey reported higher order volumes in July and only one, the apparel, leather, & allied products group, reported a decline in orders. Similarly, the current production index fell to 60.6 percent, giving back some of June's hefty increase but nonetheless remaining at an elevated level. July saw 14 of the 18 industry groups report higher output levels, with only the textile mills industry group noting a decline in output. The employment index fell to 55.2 percent in July from 57.2 percent in June, as 11 of the 18 industry groups reported higher head counts and 3 reported declines. The ISM survey poses some upside risk to our forecast of a paltry 2,000 in manufacturing payrolls in the July employment report, to be released Friday morning. The index for new export orders settled back to 57.5 percent in July from 59.5 percent in June, but nonetheless has indicated growth in new export orders in 17 consecutive months. 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.

The July ISM Manufacturing Index also indicates backlogs of unfilled orders growing larger and supplier delivers to manufacturing entities getting even slower, both of which support the notion of an increasingly healthy manufacturing sector. At the same time, the July survey shows manufacturers deemed their customer inventories to be too low, as has been the case over much of the past year. To the extent this remains the case, it points to further growth in new orders and current production which, if sustained, figures to support increased hiring and/or capital investment.

The U.S. manufacturing sector remains on a nice roll, buoyed by rising domestic and foreign demand. While a slowdown in motor vehicle sales and U.S. trade policy pose downside risks, the broad based expansion is likely to endure over coming quarters.







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