ECONOMIC UPDATE

REGIONS

September 1, 2017

August ISM Manufacturing Index: Broad Based Expansion Gathering Pace

- The ISM Manufacturing Index rose to 58.8 percent in August from 56.3 percent in July.
- The new orders component fell to 60.3 percent, the employment component rose to 59.9 percent, and new export orders rose.

The ISM Manufacturing Index jumped to its highest level since April 2011 in August. The 58.8 percent headline print easily beat the consensus forecast of 56.3 percent and our forecast of 56.0 percent. August marks the 12th consecutive month in which the headline index was above the 50.0 percent break between expansion and contraction in the factory sector, and the expansion in the factor sector remains notably broad based, which has not always been the case in the post-recession years.

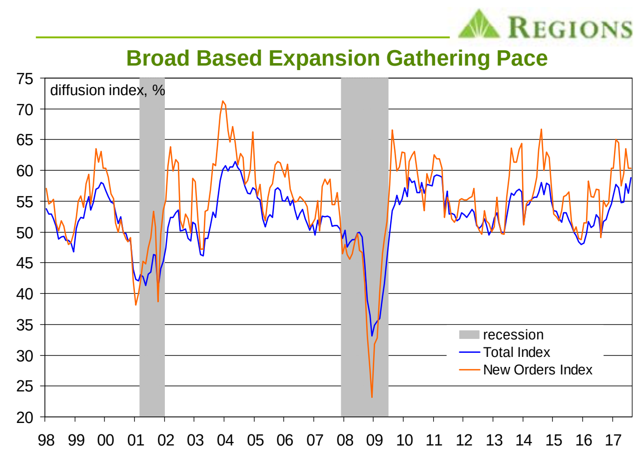
Of the 18 industry groups included in the ISM survey, 14 reported expansion in August, down slightly from 15 in each of the prior three months, with three industry groups reporting contraction. This breadth suggests the expansion in the factory sector will endure, even if motor vehicle production eases off over coming months as we expect will be the case. This is in stark contrast to earlier in the current economic expansion, when motor vehicle production was one of the few bright spots in the manufacturing sector. "Steady" and "strong" were two common words used by survey respondents in comments relayed by ISM, with many pointing to rising orders and some noting that demand has picked up over recent months.

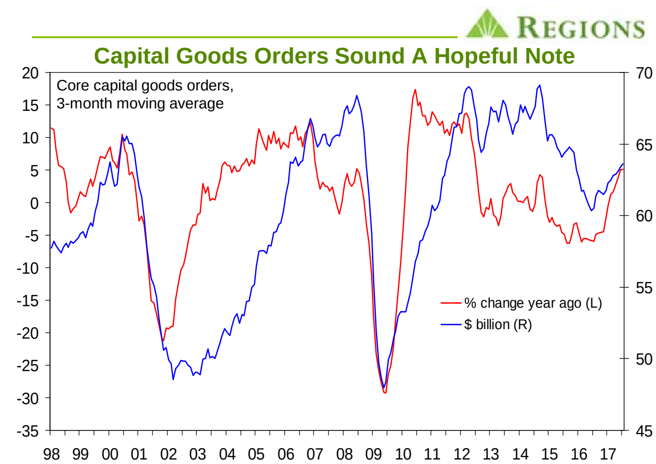
The new orders component slipped slightly in August, falling to 60.3 percent from 60.4 percent in July but nonetheless indicative of continued growth in order volumes. Twelve of the 18 industry groups reported higher order volumes in August while four saw order volumes fall. The current production component rose to 61.0 percent in August with 11 of the 18 industry groups reporting higher output levels while four reported a decrease in production. What really stands out in the August data is the jump in the employment component. At 59.9 percent in August, the employment component stands at its highest level since June 2011, with 13 of the 18 industry groups reporting increased payrolls and only two industry groups – apparel, leather, & allied products and primary metals – reporting lower payrolls. While we don't for a minute buy the reported 36,000 job increase in manufacturing payrolls reported by the BLS in the August employment report as that reflects a suspiciously large increase in payrolls amongst motor vehicle manufacturers that we think is more seasonal adjustment noise than anything else. That said, steady increases in payrolls elsewhere in the BLS data are consistent with the path of the ISM data over the past several months, and again fit with the story of broad based expansion in the factory sector.

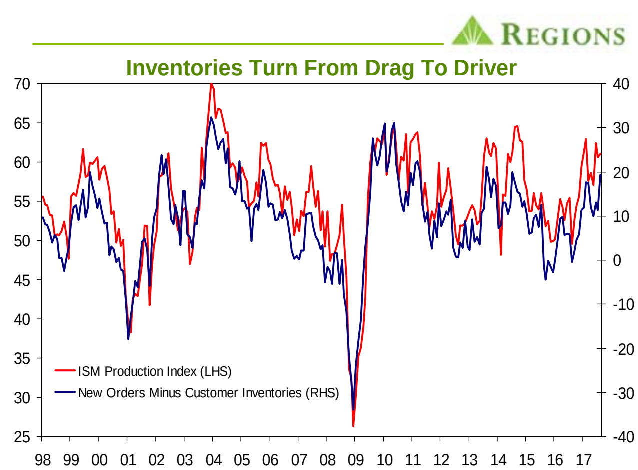
U.S. manufacturers are benefitting not only from rising domestic demand but ongoing growth in foreign demand. The ISM's gauge of new export orders slipped to 55.5 percent in August from 57.5 percent in July, indicating that new export orders grew in August but at a slightly lower rate than in July. Still, the gauge of new export orders has indicated growth in export orders for 18 consecutive months, which reflects both firmer global economic growth and a softer U.S. dollar.

Other components of the ISM data reinforce the premise of a broad based expansion that is gathering pace. Supplier deliveries to manufacturers slowed further in August as suppliers are having more and more difficulty keeping up with rising demand. At the same time, order backlogs rose further in August, meaning manufacturers are falling further behind in filling orders. It is also worth noting that manufacturers assess customer inventories to be too low, and in August did so to an extent not seen since May 2011. This suggests manufacturers expect to see even further growth in new orders over coming months. All of these factors will be supportive of production and employment over coming months.

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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