ECONOMIC UPDATE

REGIONS

October 2, 2017

September ISM Manufacturing Index: It's Good To Be The Manufacturing Sector . . .

- The ISM Manufacturing Index rose to 60.8 percent in September from 58.8 percent in August.
- The new orders component rose to 64.6 percent, the employment component rose to 60.3 percent, and new export orders rose.

It may indeed be good to be the king, but right now it's even better to be the manufacturing sector. The ISM Manufacturing Index hit its highest level since May 2004 in September, rising to 60.8 percent. More significantly, the details are in line with the signal being sent by the headline index, which is not always the case with a diffusion index such as the ISM index. September's headline print was above the consensus forecast of 58.0 percent and our forecast of 58.5 percent. The headline index has now been above the 50.0 percent break between expansion and contraction in the factory sector for 13 consecutive months, and the expansion in the factory sector remains notably broad based, not always the case in the post-recession years.

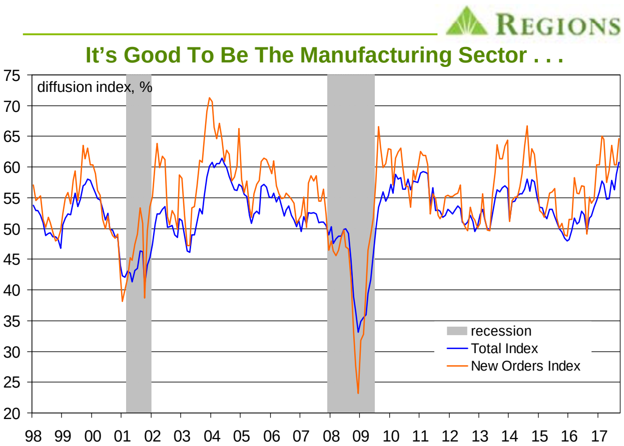
Of the 18 industry groups included in the ISM survey, 17 reported expansion in September, with only the furniture & related products group reporting contraction. Hurricanes Harvey and Irma figured prominently in the comments by survey participants relayed by ISM. Several respondents noted the hurricanes will have a significant impact on input costs. Indeed, this likely contributed to the jump in the prices paid component, which jumped to 71.5 percent in September, the highest since May 2011, and all 18 industry groups reported paying higher prices for raw inputs. There were also concerns expressed as to the impact on supply chains, which likely was a key contributor to the notable slowdown in supplier delivery times in September – the index of supplier delivery times rose to 64.4 percent in September (a higher value here means slower delivery times), the highest since July 2004. Note that while the prices paid component does not factor into the calculation of the headline index, the component for supplier delivery times does and, all else the same, had the delivery time component remained unchanged in September, the headline index would have come in at a still-strong 59.3 percent. This is worth noting since, notwithstanding the impact of the hurricanes, other comments continue to point to ongoing robust growth in demand, even where normal seasonal slowdowns would have normally kicked in.

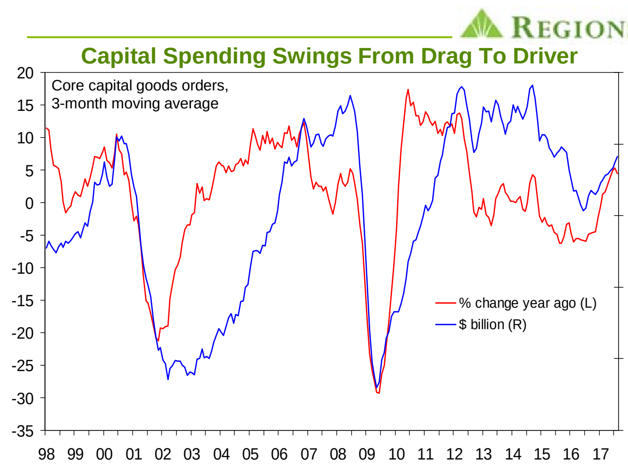
The new orders component popped up to 64.6 percent in September from 60.3 percent in August, as 14 of the 18 industry groups reported higher order volumes and three reported lower order volumes. The component measuring current production rose to 62.2 percent in September from 61.0 percent in August, and has hovered at or above 60.0 percent for most of 2017. Backlogs of unfilled orders grew larger in September, with the ISM's gauge hitting 58.0 percent, the highest since April 2011. Twelve of the 18 industry groups reported larger backlogs, with two reporting smaller backlogs.

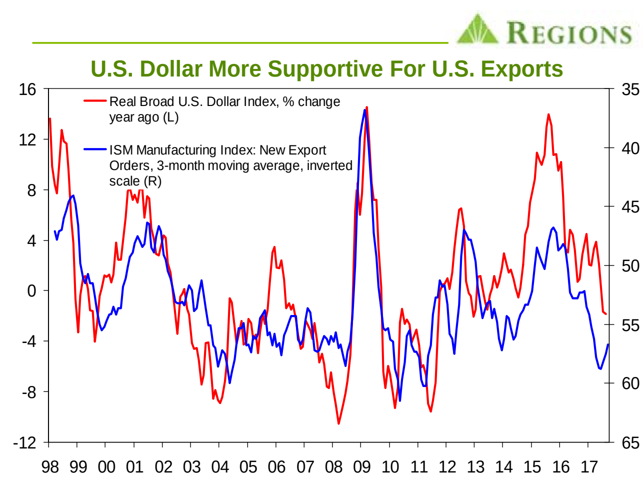
It is possible that the hurricanes contributed to the increase in backlogs of unfilled orders in September, but keep in mind that prior to the hurricanes backlogs had been steadily building. This helps account for what have been steadily rising levels of employment and production over the past several months. While some respondents have pointed to labor shortages as limiting capacity, the employment component rose to 60.3 percent in September, the highest since June 2011, with 13 of the 18 industry groups reporting higher job counts and three reporting declines.

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 rose to 57.0 percent in September and has remained above the 50.0 percent mark – indicating growth in export orders – for 19 consecutive months. Firmer global economic growth and the effects of a sharp decline in the exchange value of the U.S. dollar are contributing to the steady growth in export orders.

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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