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## May ISM Manufacturing Index: Slower Pace Of Activity, But Price Pressures Build

- > The ISM Manufacturing Index fell to 53.2 percent in May from 54.9 percent in April.
- > The new orders component fell to 53.3 percent while the employment component dropped to 51.9 percent.

As measured by the ISM Manufacturing Index the pace of activity in the factory sector unexpectedly slowed in May, with the headline index falling to 53.2 percent from April's reading of 54.9 percent. Most of the components beneath the headline index exhibited the same pattern – showing further growth but at a slower pace. The one exception is the prices paid component, which jumped to 60.0 percent in May from 56.5 percent in April. Comments from survey respondents are pretty much consistent, with tight supplies seen as contributing to price pressures in some industry groups and a steady pace of overall growth, with shrinking defense contracts cited as one exception.

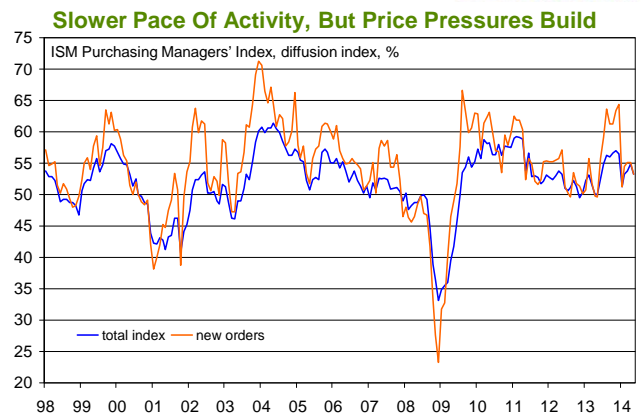
As we point out every month, not just when the headline underperforms our expectations, the ISM's index is a diffusion index, which signals changes in the pace of activity but not the intensity of those changes. Despite the dip in the headline index in May, 17 of the 18 industry groups included in the survey reported growth in activity during the month while one reported no change and no industry groups reported a contraction. The component for new orders fell to 53.3 percent in May from 55.1 percent in both March and April. Of the 18 industry groups included in the survey, 14 reported higher orders, three unchanged orders, and one – computer & electronic products – reported a decline in new orders. The component for current production exhibited a similar pattern – broad based growth, with 15 of the 18 industry groups reporting increased production, but at a slightly slower pace than in April. The one industry group reporting lower production in May was textile mills.

The decline in the employment component varies from this pattern, as 11 of the 18 industry groups reported higher job counts in May while 4 industry groups reported lower levels of employment. The lower reading on the employment component could mean growth in overall manufacturing employment as reported in the May employment report (out this Friday) will fall short of the consensus expectation of an increase of 10,000 jobs. Order backlogs continued to grow in May and supplier delivery times slowed further, but both did so at slower rates than in the preceding months. To some extent, this reflects an evening out after weather related distortions during the winter months when supply chains were disrupted and production slowed. The component for supplier delivery times factors into the headline index and thus contributed to May's decline. The component for new export orders, which does not impact the headline index, posted an 18<sup>th</sup> consecutive month of expansion in May. The ISM export index is typically a good signal of changes in exports of U.S. goods as reported in the GDP data and while this pattern broke in Q1, exports rebounded in March and the ISM survey suggests exports will log further gains in Q2.

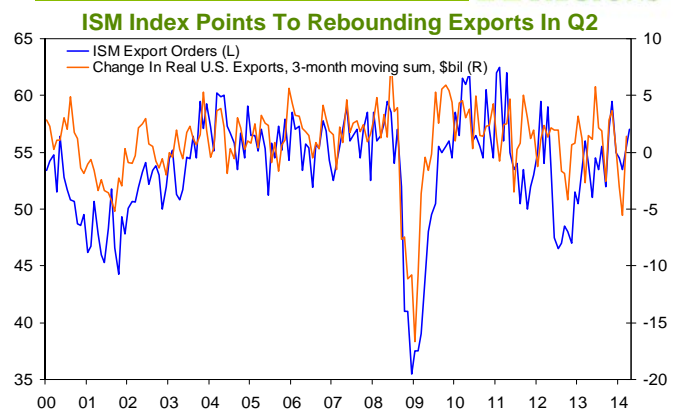
The behavior of the prices paid component is an illustration of the point made above – the ISM's diffusion indexes can tell us the direction but not the intensity of changes. In May, 11 of the 18 industry groups reported paying higher prices while two – paper products and chemical products – reported paying lower prices. While the May index value of 60.0 percent is eye catching, recall global commodity prices have been quite tame for some time, so the higher prices being reported by ISM survey respondents are for the most part coming off of a very low base and, again, they tell us nothing about the intensity of the price increases. The ISM characterized price increases as "not yet out of control" though, as with beauty, that assessment is very much in the eye of the one footing the bill.

Though a surprise, the dip in the ISM Manufacturing Index does not change the overall outlook for continued growth in the factory sector over coming months.

### Slower Pace Of Activity, But Price Pressures Build



### ISM Index Points To Rebounding Exports In Q2



### Core Capital Goods Orders

