ECONOMIC UPDATE
REGIONS
July 1, 2014

June ISM Manufacturing Index: 55.3%, And This Time We Really Mean It . . .

- The ISM Manufacturing Index slipped to 55.3 percent in June from a revised revision of 55.4 percent in May.
- The new orders component rose to 58.9 percent while the employment component was unchanged at 52.8 percent.

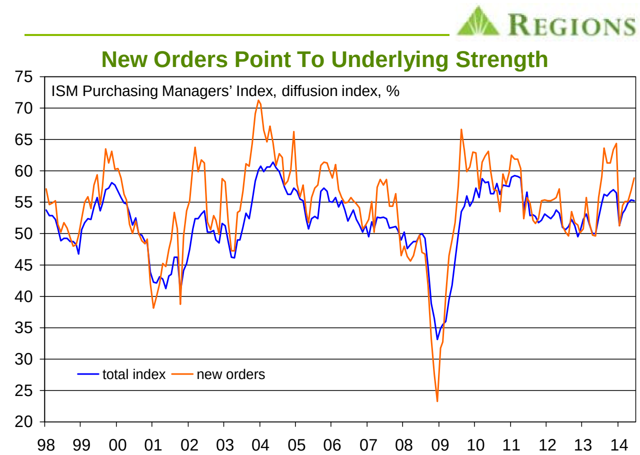
The ISM Manufacturing Index was little changed in June, coming in at 55.3 percent from 55.4 percent in May. It would of course simply be bad form to rehash last month's adventures in seasonal adjustment that led to a revised estimate of the revised estimate of the ISM's headline index, so we'll just take the June number at face value. As such, the ISM index shows further steady expansion in the nation's factory sector with continued growth in new orders, both domestic and foreign.

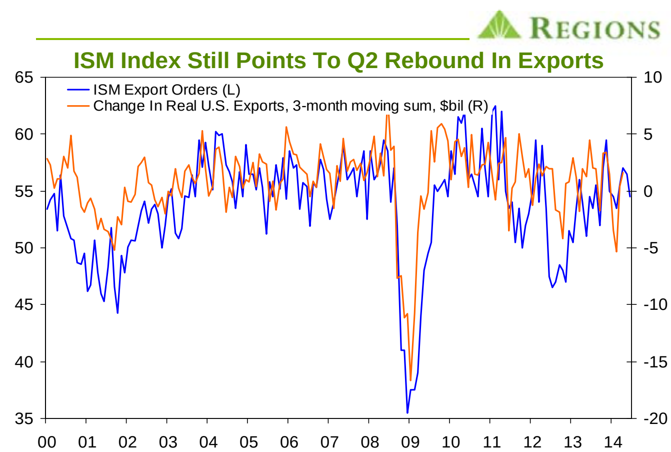
The new orders component rose to 58.9 percent in June, the highest level of the year though not on par with the better than 60 percent readings that prevailed over the second half of 2013. Of the 18 industry groups included in the ISM's survey, 12 reported expanding order books with four – textiles, apparel, leather products, and computer & electronic products – reporting lower order volumes. June marks the 13th consecutive month in which order volume has expended, and the ISM data are consistent with the underlying trend in core capital goods orders reported by the Commerce Department. The component on current production slipped a bit in June, coming in at 60.0 percent from 61.0 percent in May, but is nonetheless consistent with steady increases in factory output. Note the current production component is one of the five components that directly factor into the headline index, which helps account for the small decline in June's headline index. Of the 18 industry groups included in the ISM survey, 13 reported growth in production with chemical products the only industry group to report a decrease in production. Steady and broad based production increases over recent months have helped clear order backlogs, which contracted in June for the first time since January.

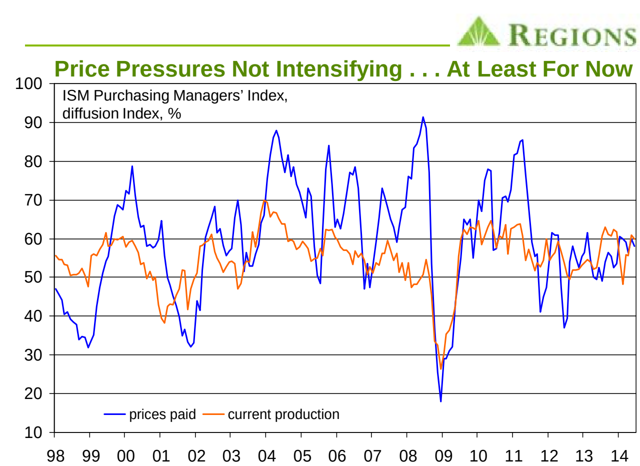
The employment component held at 52.8 percent in June, the 12th consecutive month of growth in employment. In June, nine of the 18 reporting industry groups reported expanding payrolls with five reporting lower employment levels. The split here falls mostly, but not entirely, in line with the payroll data in the monthly employment reports showing job gains in the durable goods producing industries being countered by job losses in the nondurable goods producing industries. The component for new export orders, which does not impact the headline index, slipped a bit but nonetheless posted a 19th consecutive month of expansion in June. 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 the ISM survey suggests exports will have rebounded in Q2.

There has been considerable discussion of late as to whether, and to what extent, inflation has returned, which meant the June reading on the ISM's prices paid component would merit attention. The index actually slipped in June, falling to 58.0 percent from 60.0 percent in May, indicating price pressures remain but are not intensifying. Eleven of the 18 industry groups reported paying higher input prices in June, but recall the ISM survey is a measure of the breadth of changes in the various components, not the intensity. The other factor to keep in mind is the ISM data are capturing price pressures at the very origin of the supply chain, pressures which for some time now have dissipated significantly by time goods reach the end of the line, i.e., the retail level. Still, to the extent conditions in the manufacturing sector continue to strengthen, and the broader economy continues to improve, the ISM data could provide meaningful and early signals of subsequent price pressures on the retail level but at this stage are not setting off any kind of inflation alarm bells.

Despite the minor dip in June the ISM Manufacturing Index, particularly the growth in new orders, continues to point to steady growth in the factory sector over coming months with price pressures not yet building to a concerning degree.







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