ECONOMIC UPDATE
REGIONS
August 1, 2022

July ISM Manufacturing Index: Yes, The Expansion Continues, But . . .

- The ISM Manufacturing Index fell to 52.8 percent in July from 53.0 percent in June
- The new orders index fell to 48.0 percent, the employment index rose to 49.9 percent, and the production index fell to 53.5 percent

The ISM Manufacturing Index fell to 52.8 percent in July, better than what we and the consensus expected but the lowest level of the index since June 2020. While July marks the 26th straight month in which the headline index was above the 50.0 percent break between contraction and expansion, the indexes of new orders and employment remained below 50.0 percent in July. The index of prices paid posted its fourth largest monthly decline on record, indicating that while prices for non-labor inputs are still rising, they are doing so at a slower rate, which would be consistent with softening demand. At the same time, there was an indication of further progress on the supply chain front while backlogs of unfilled orders are thinning. It is interesting that ISM reports that firms "continue to hire at strong rates" but rising quits are weighing on overall levels of employment. This goes to a point we made in our weekly *Economic Preview* – it could be that the contractions in new orders ISM reports for both June and July reflect slower growth in orders being exaggerated by unfriendly seasonal adjustment, as outright declines in new orders would not be consistent with firms continuing to take on new workers "at strong rates." Amid the seemingly mixed signals within the ISM survey data, it does seem clear that, while ongoing, the expansion in the factory sector has slowed and has become less broad based.

Of the 18 industry groups included in the ISM's survey, 11 reported expansion in July, down from 15 in both May and June and the fewest in any month since May 2020, while seven industry groups reported contraction in July. ISM reports softening new orders were cited in 16 percent of the general comments from survey respondents, little changed from 17 percent in the June survey but up from 10 percent in the May survey. The overall tone of the comments relayed by ISM is cautious, with several either noting a slowdown in demand or anticipating one in the months ahead while, despite some improvement in the supplier delivery times index, some respondents cite long lead times and (input) delivery issues continue to disrupt activity.

The new orders index fell to 48.0 percent in July, down from 49.2 percent in June and 55.1 percent in May and has now been below 50.0 percent in back-to-back months for the first time since the depths of the pandemic. Of the 18 industry groups in the ISM's survey, only four reported growth in new orders in July, the fewest since May 2020, with seven industry groups reporting declines in orders and seven reporting no change in orders. At the same time, while backlogs of unfilled orders rose further in July, they did so at the slowest pace since May 2020 as only five of the eighteen industry groups reported larger backlogs. To the extent new orders are slowing, supply chain constraints are contributing to ongoing backlogs, but that order backlogs are becoming less pronounced bodes poorly for output and employment in the months ahead as backlogs dissipate. At 53.5 percent, the production index indicates that factory output grew in July, but only five of the eighteen industry groups reported higher output while six reported declines. Though the employment index rose to 49.9 percent, it nonetheless remained below the 50.0 percent mark for a third straight month. Again, ISM reports this is more a reflection of higher turnover, whether through quits or through retirements, with firms continuing to face difficulty in backfilling positions. That said, the ISM's gauge of employment remains at odds with the data in the monthly employment reports showing continued increases in manufacturing payrolls.

The index of supplier delivery times fell to 55.2 percent in July, with a smaller share of firms reporting slower delivery times and panelists noting improved supplier performance compared to previous months. Still, supply chains remain far from normal, and there seems to be considerable variance across the broad industry groups. Though input prices continue to rise, the sharp decline in the prices paid index in July merits attention. Any easing of input price pressures, however, is more a reflection of diminished demand than of improved supply, and in the months ahead input prices will be a powerful indicator of the extent to which demand has actually slowed.

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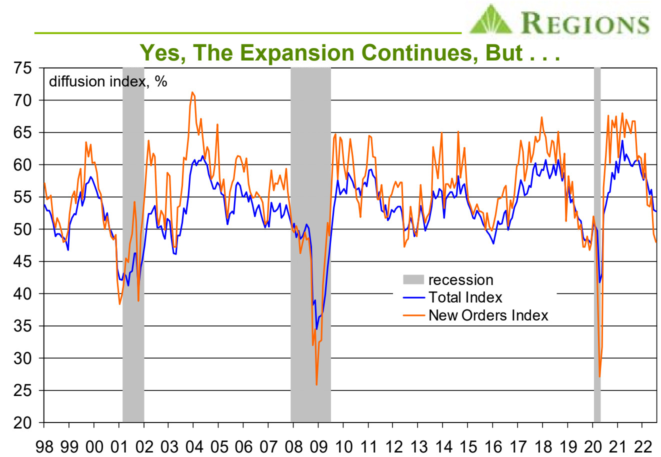
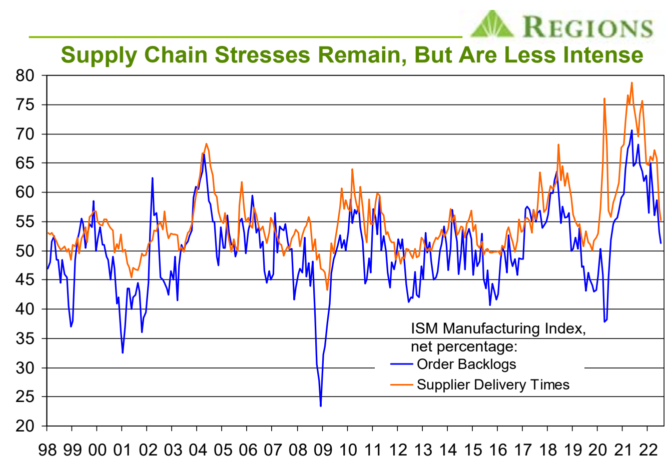


Source: Institute for Supply Management®; Regions Economics Division

Supply Chain Stresses Remain, But Are Less Intense



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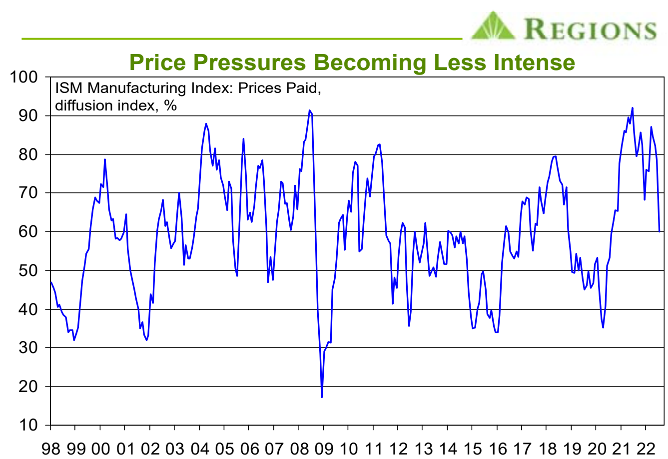
Price Pressures Becoming Less Intense



Source: Institute for Supply Management®; Regions Economics Division

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