# ECONOMIC UPDATE

REGIONS

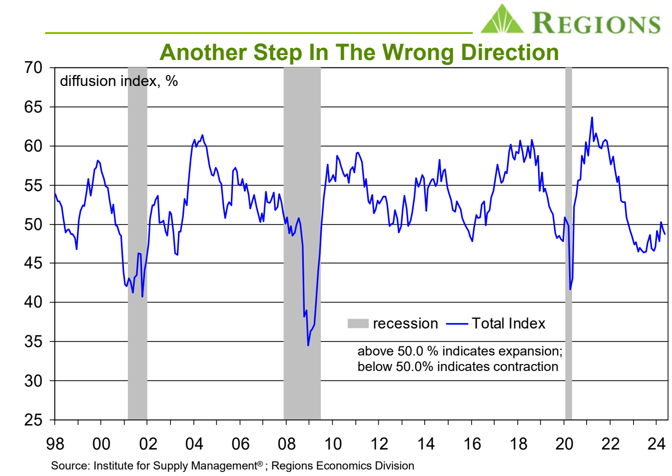
June 3, 2024



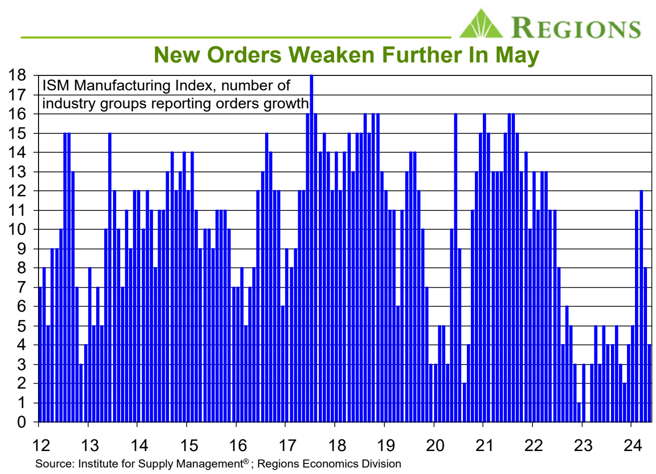
## May ISM Manufacturing Index: Another Step In The Wrong Direction

- The ISM Manufacturing Index fell to 48.7 percent in May from 49.2 percent in April
- The new orders index fell to 45.4 percent, the employment index rose to 51.1 percent, and the production index fell to 50.2 percent

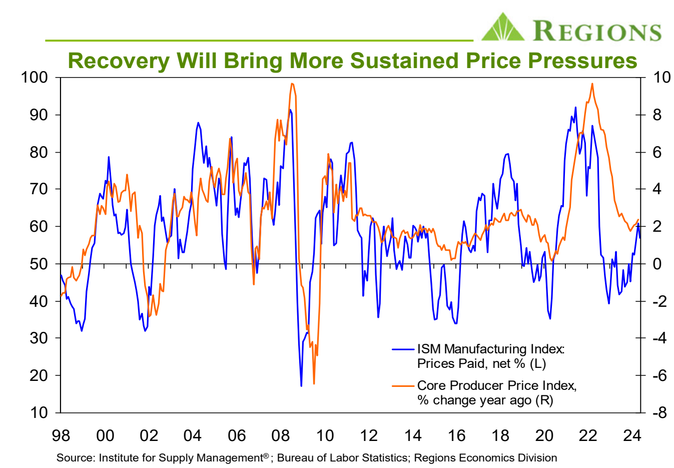
The ISM Manufacturing Index fell to 48.7 percent in May from 49.2 percent in April, below what we (49.9 percent) and the consensus (49.6 percent) expected. This marks a second straight month with the headline index back below the 50.0 percent break between contraction and expansion after what had been a run of sixteen straight months below that threshold was broken in March. When the headline index dipped back below 50.0 percent in April, we raised the question of whether that simply marked the sort of wavering common at cyclical turns or whether the March reading was simply a one-off illusion of improvement. Our sense at the time was that it was the former not the latter, but the May data seem to suggest a different answer, particularly given the weakness in the new orders index and the firm-level data for that key component. At the same time, however, there was some improvement in the employment index and in the firm-level data for that component, while continued upward pressure in non-labor input prices isn't exactly consistent with an industry in retreat. We've noted that while we expect growth in the factory sector in the months ahead, we also expect that growth to be somewhat halting and uneven. That the May survey results show very uneven results and a very uneven outlook across the individual industry groups is consistent with our "halting and uneven" assessment, and if that is indeed the case that would suggest the headline index won't stray too far in either direction from the breakeven 50.0 percent line in the months ahead.




Of the eighteen industry groups included in the ISM's survey, seven reported growth in May, down from nine in each of the prior two months, with seven industry groups reporting contraction in May. Whereas in their comments on the April results ISM characterized demand as being in "the early stages of recovery, with clear signs of improving conditions," in this month's commentary they state that "demand remains elusive," noting that higher interest rates are contributing to wavering commitments to undertake capital spending and build inventories. Comments from survey respondents are somewhat mixed in terms of demand/orders, with more than one comment pointing out the adverse effects of raw materials price inflation.




The new orders index fell to 45.4 percent in May, the lowest reading since last May, and the details are even worse. Only four industry groups reported higher orders in May while eight reported lower order volumes. On the firm level, there was a decline in the share of firms reporting higher orders while there was a pronounced spike in the share of firms reporting lower orders, both of which mark disappointing reversals of what earlier in the year looked to be broadly based growth in orders. ISM notes that survey panelists point to underperforming housing, construction, and capital spending activity as the culprits behind this reversal in orders momentum. The production index remained above the 50.0 percent mark in May but was, at 50.2 percent, down from 51.3 percent in April, with one-third of industry groups reporting higher output, one-third reporting lower output, and one-third reporting no change. The firm-level splits were unfavorable, with a higher share reporting lower output than was the case in April. After seven straight months of contraction, the employment index reversed course in May, rising to 51.1 percent, and the firm-level splits show a higher share of firms reporting higher levels of employment and a smaller share of firms reporting lower employment. At the same time, however, ISM notes an increase in staff reductions compared to April.




Though down from April, at 57.0 percent the prices paid index nonetheless points to a fifth straight month of rising prices for non-labor inputs, with twelve of the eighteen industry groups reporting higher input prices. We've taken the upward turn in the prices paid index as a sign of firming conditions (demand) in the factory sector, but higher input prices will ultimately feed into upward pressure on finished goods prices.

After having dipped below 50.0 percent in April, the index of new export orders reversed course in May. ISM notes comments from panelists point to "marginal" improvement in demand from abroad, consistent with signs that global economic growth is firming, even if, in what seems to be an overrising theme in the factory sector, at an uneven pace.

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