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## June ISM Manufacturing Index: The (Somewhat Uneasy) Expansion Continues

- › The ISM Manufacturing Index **fell** to 53.3 percent in June from 54.0 percent in May
- › The new orders index **fell** to 56.0 percent, the production index **fell** to 52.2 percent, and the employment index **rose** to 49.7 percent

The ISM Manufacturing Index slipped to 53.3 percent in June, below what we (53.7 percent) and the consensus (53.9 percent) anticipated but nonetheless marking a sixth straight month with the headline index above the 50.0 percent break between contraction and expansion. We'll note that what we consider to be the three most important components that enter into the calculation of the headline index – new orders, production, and employment – were little changed from their May reads. The decline in the headline index was instead driven by supplier delivery times not being as slow as they were in May; had the index supplier delivery times remained at its May level, the headline index would have remained at 54.0 percent. The point here is that for all the lingering uncertainty around the course of trade policy and the ultimate outcome of the conflict with Iran, the manufacturing sector continued to expand in June and that new orders continue to increase suggests the expansion has further to run. That said, despite some relief from lower energy prices over the course of the month, the ISM's June survey shows upward pressures on input prices remain intense and broadly based. On top of posing a threat to profit margins within the factory sector, this also helps account for worries that core inflation will remain somewhat sticky in the months ahead.

Fourteen of the eighteen broad industry groups included in the ISM survey reported growth in June, down from sixteen in May but aside from May this would be the most in any month since June 2022. Three of the broad industry groups reported contraction in June. Despite six straight months of expansion in the manufacturing sector, comments from survey respondents continue to skew heavily negative, with ISM reporting that thirty-four percent of comments in June were positive while sixty-six percent were negative, down only slightly from sixty-nine percent in May. This points to lingering uncertainty over trade policy and the still not certain resolution of the conflict with Iran. These issues are likely at the heart of ongoing frustrations with pricing volatility, which ISM reports was cited in one-half of the comments received in June.

In contrast, ISM notes sentiment around new orders remains considerably more upbeat, with 2.7 positive comments for each negative comment in June. The new orders index slipped a bit, from 56.8 percent in May to 56.0 percent in June, but this nonetheless marks a sixth straight month of

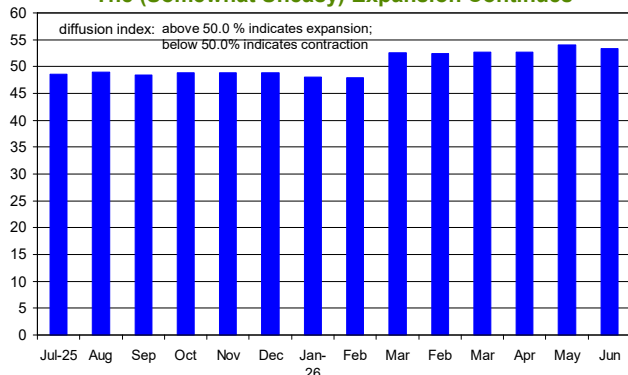
growth in new orders. The industry level splits do not seem all that robust, with eleven of the eighteen broad industry groups reporting growth in new orders in June, down from fourteen in May, and six reporting lower orders, up from only one in May. We'd say, however, that this is more a reflection of how strong orders were in May, and we think that is borne out by the firm level details, which we routinely point to as being a more reliable gauge than the overall diffusion index. Recall that April and May saw thirty-one percent of all firms report higher orders, and while that share slipped to 22.3 percent in June, it is also the case that a smaller share of firms reported lower orders than in April and May. Instead, almost two-thirds of firms reported no change in orders between May and June, suggesting that orders remained at a fairly high level, which is in line with other indicators of manufacturing orders. While backlogs of unfilled orders thinned out a bit in June, the combination of ongoing growth in new orders and lingering order backlogs should be supportive of output and employment in the factory sector over coming months.

To that point, despite easing a bit in June, the production index registered an eight consecutive month of rising output, with ISM reporting that on the topic of production the ratio of positive-to-negative comments was two-to-one. As with new orders, the easing in the production index in June was more a reflection of how strong the index was in May, and the firm level data show more than two-thirds of firms reported no change in production levels in June. It could be that ongoing growth in orders and expansion in output is leading firms to rethink headcounts. Though still below the 50.0 percent mark, the employment index rose to 49.7 percent in June, the highest reading since January 2025, with the firm level data showing a further decline in the percentage of firms reporting lower headcounts. All that having been said, any additions to headcounts in the factory sector are likely to come at a restrained pace, reflecting the general unease of firms amid the ongoing expansion.

Though input price pressures eased marginally in June, the prices paid index registered 73.0 percent. While lower energy prices did provide some relief, tariff costs remain a support for input prices, and to the extent that a durable expansion is taking hold in the manufacturing sector, that too will be an ongoing source of input price pressures.



### The (Somewhat Uneasy) Expansion Continues



### Order Books Remain Firm In June

