ECONOMIC UPDATE
REGIONS
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July ISM Manufacturing Index: Manufacturing Expansion Gathering Pace

- The ISM Manufacturing Index rose to 55.6 percent in July from 53.3 percent in June
- The new orders index rose to 56.7 percent, the production index rose to 58.5 percent, and the employment index rose to 52.8 percent

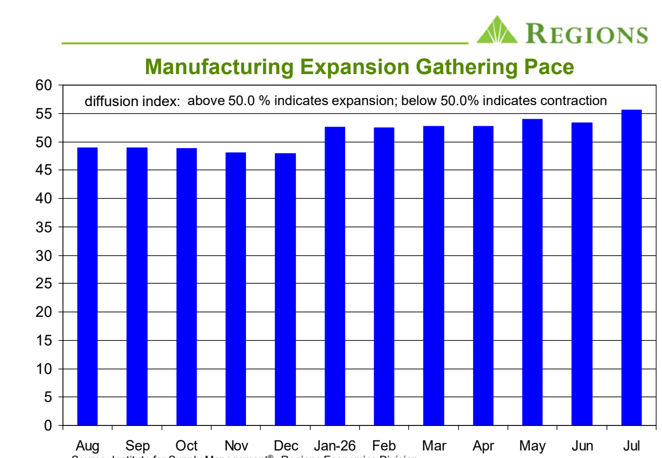
The ISM Manufacturing Index rose to 55.6 percent in July, better than we (54.2 percent) and the consensus (53.9 percent) expected, marking a seventh straight month with the headline index above the 50.0 percent break between contraction and expansion and the highest read on the headline index since May 2022. The biggest contributors to the beat on the headline index were a jump in the production index which alone added 1.4 points to the headline index and a smaller but noteworthy jump in the employment index. Longer supplier delivery times also added to the headline index, though part of the slowdown in delivery times could reflect renewed stresses on global supply chains. More importantly, order books remain firm, order backlogs continue to grow, and members continue to assess customer inventories as being too low. This is a combination which bodes well for further expansion in the factory sector, even if ongoing uncertainty around trade policy and elevated input prices continue to pose challenges for manufacturers and their customers.

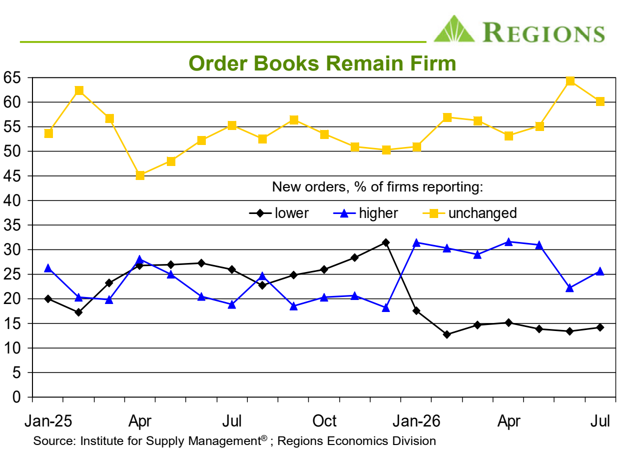
Fifteen of the eighteen broad industry groups included in the ISM survey reported growth in July, up from fourteen in June, with chemical products the lone industry group reporting contraction in July. Comments from survey respondents remain skewed to the negative; ISM reports that sixty-two percent of comments in July were negative and thirty-eight percent were positive, compared to sixty-six percent and thirty-four percent, respectively, in June. ISM reports that of the negative comments, price volatility, the war with Iran, and tariffs were the most commonly cited factors. Still, comments from certain industry groups – computer and electronics products, machinery, transportation equipment – pointed to robust demand. More common were comments citing efforts to circumvent tariffs, higher fuel/shipping costs, and longer delivery lead times. This is a reminder that, while the ongoing expansion in the factory sector is encouraging, it nonetheless rests on less than rock-solid footing.

Sentiment around new orders remains considerably more upbeat, with ISM reporting 3.5 positive comments on orders for each negative comment in July (up from a 2.7-to-1 ratio in June). The new orders index rose to 56.7 percent in July, with twelve industry groups reporting growth in orders and two reporting lower order volumes. We routinely cite the firm level details as being the better guides than the diffusion indexes, and on that basis orders were better in July than in June but at the same time were not at the levels seen in prior months. That said, the index of production jumped in July, reaching 58.5 percent, the highest reading since November 2021 which, as noted above, added 1.4 points to the headline index. Twelve industry groups reported higher output in July and six reported no change in output levels. The firm level details were favorable, with an increase in the percentage of firms reporting higher output and a drop in the percentage of firms reporting lower output. Even with the jump in production, the backlog of unfilled orders grew larger in July. At the same time, the index of customer inventories remains firmly in "too low" territory and fell even deeper into that territory in July. Continued growth in new orders, growing order backlogs, and customer inventories being too low are pretty much the growth trifecta for the factory sector, which is one reason to think that despite the obvious challenges confronting firms and their customers, the expansion in the factory sector has further to run.

One question that remains, however, is whether, or to what extent, this will foster meaningful job growth in the manufacturing sector. The monthly employment reports show very modest growth in manufacturing payrolls over the first half of 2026, but this pales in comparison to the job losses seen over the prior few years. The ISM's index of employment did rise to 52.8 percent in July, but the firm level details were only marginally different from June, when the index stood at 49.7 percent. Still, ISM does note a more upbeat tone in comments pertaining to employment, and the longer the expansion in the factory sector persists, particularly with order backlogs continuing to grow, the better the odds of more meaningful growth in manufacturing payrolls.

Longer supplier delivery times remain a challenge for firms, and delivery times slowed further in July. While the headline index treats slower delivery times as a positive – a sign of stronger demand – that premise is being put to the test by disruptions in global supply chains stemming from the conflict with Iran. Another ongoing challenge is persistent and broadly based upward pressure on input prices, already firmly in place prior to the start of the conflict with Iran, with ripple effects from tariffs playing a role. This suggests broader inflation pressures will be sustained.





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