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June ISM Manufacturing Index

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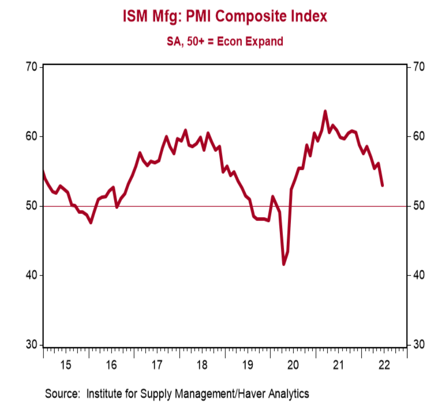
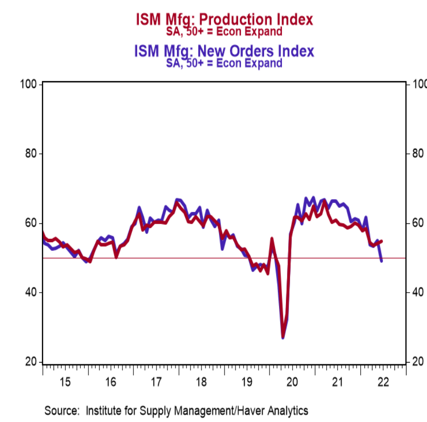
- The ISM Manufacturing Index declined to 53.0 in June, below the consensus expected 54.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were mostly lower in June, but the majority stand above 50, signaling growth. The production index rose to 54.9 from 54.2 in May, while the new orders index fell to 49.2 from 55.1. The employment index fell to 47.3 from 49.6, and the supplier deliveries index fell to 57.3 from 65.7 in May.

- The prices paid index declined to 78.5 in June from 82.2 in May.





Implications: The manufacturing sector continued to expand in June, though at a slower pace, with fifteen of eighteen industries reporting growth. The slowdown in manufacturing activity was characterized by supply-chain issues and a weakening in demand due to the ongoing shift in consumer preferences away from goods and towards services. Respondent comments in June highlighted shortages of key inputs and high energy prices, but also a drop in the pace of new orders, with some customers reporting high inventory levels. The result was the new orders index falling to 49.2 in June, dipping into contraction territory for the first time since the early days of the pandemic. Today's report also comes on the heels of yesterday's numbers on consumer spending which showed purchases of goods (-0.7%) and services (+0.7%) beginning to move in opposite directions in May. While the softening of new orders is bad for future manufacturing activity, it should also give US factories time to catch up on all the existing orders they already have in the pipeline. The production index rose to 54.9 in June, signaling factories still have plenty to do. Fewer new orders and more production on existing orders also seems to be easing pressure on supply chains, with the order backlog index falling to 53.2 in June, the lowest in nearly two years. The supplier deliveries index also signaled progress, posting its largest one-month decline since the initial shutdowns for COVID-19 in 2020. However, delays are far from over, with fourteen of eighteen industries reporting waiting longer for inputs. Meanwhile, the employment index fell further into contraction territory in June, declining to 47.3 from 49.6 in May. Judging by the survey comments, this doesn't seem to be due to the softening orders, with an overwhelming majority of respondents stating that their companies are still hiring. Instead, the tight-labor market seems to be the culprit, with manufacturing continuing to be one of the worst-hit sectors in the ongoing labor shortage. Job openings in manufacturing are at a record high and roughly 150% of where they were pre-pandemic. Finally, the highest reading of any index in June continued to come from prices, which fell slightly to 78.5 but remains very elevated versus history. In other news this morning, construction spending declined 0.1% in May, with large drops in road construction and power plants offsetting big gains in home building and manufacturing projects.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Jun-22	May-22	Apr-22	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	**53.0**	56.1	55.4	54.8	56.3	60.9
New Orders	**49.2**	55.1	53.5	52.6	55.2	66.4
Production	**54.9**	54.2	53.6	54.2	55.6	60.9
Inventories	**56.0**	55.9	51.6	54.5	54.3	51.3
Employment	**47.3**	49.6	50.9	49.3	51.9	50.9
Supplier Deliveries	**57.3**	65.7	67.2	63.4	64.4	75.1
Order Backlog *(NSA)*	**53.2**	58.7	56.0	56.0	58.2	64.5
Prices Paid *(NSA)*	**78.5**	82.2	84.6	81.8	80.7	92.1
New Export Orders	**50.7**	52.9	52.7	52.1	53.4	56.2

Source: National Association of Purchasing Management