ECONOMIC UPDATE

REGIONS

September 3, 2024

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August ISM Manufacturing Index: No Particular Place To Go, Not In A Hurry To Get There

- The ISM Manufacturing Index rose to 47.2 percent in august from 46.8 percent in July
- The new orders index fell to 44.6 percent, the employment index rose to 46.4 percent, and the production index fell to 44.8 percent

The ISM Manufacturing Index rose to 47.2 percent in August, below expectations and marking the twenty-first month of the past twenty-two in which the headline index was below the 50.0 percent break between contraction and expansion, a run interrupted only by March's short-lived foray into expansionary territory. The underlying details – firm level and industry level – remain weak, particularly those pertaining to new orders, which would suggest no quick turnaround for the factory sector. That said, it strikes us that while things may not be getting better in the manufacturing sector, neither do things seem to be getting appreciably worse, and at the least conditions across industry groups within the broad manufacturing sector are somewhat uneven. To that point, there are a number of headwinds facing the manufacturing sector, including sluggish global economic growth, still-high financing costs, and an uncertain outlook for U.S. tax, regulatory, and trade policy. The uncertain policy outlook seems the stiffest of these headwinds, which would mean that it could be sometime in 2025 before the combined impacts of clarity on the policy front and lower financing costs begin to drive meaningful improvement.

Of the eighteen industry groups included in the ISM's survey, only five reported growth in August, matching July's tally as the fewest in any month since January. To our earlier point, comments from survey respondents on the status of their order books are mixed, with some pointing to weak/weakening orders and others pointing to strong/strengthening orders. Comments around the uncertain policy outlook are more uniform, with several pointing to this as acting as a hold on activity. One respondent from the wood products industry group notes growing pent-up demand for housing and remodeling but also notes that interest cuts may be coming too late to be of much help in 2024. We do think it worth noting that after order cancellations were one theme of the comments from the June survey, there have been no such references in the past two months, again going to our point about things getting neither appreciably worse nor appreciably better.

The new orders index fell to 44.6 percent in August from 47.4 percent in July, with only four of the eighteen industry groups reporting growth in orders. Still, 57.1 percent of firms reported no change in orders in August, with smaller percentages reporting increases or decreases than was the case in July. ISM again noted a high degree of uncertainty and a low degree of confidence around the future economic environment. At the same time, the backlog of unfilled orders shrank further in August and has now contracted for twenty-three straight months. To the extent that new orders continue to decline, order backlogs will be pared down at a faster rate and, as this occurs, the demand for inputs and the demand for labor begins to fade in what can, should it persist for long enough, become a somewhat vicious circle.

That the production index, which fell to 44.8 percent in August, remains below the 50.0 percent mark is no surprise given the paths of new orders and order backlogs. Still, roughly two-thirds of firms reported no change in production levels in August, again going to our point about the factory sector being in somewhat of a holding pattern. That is also the case with employment; the employment index rose to 46.0 percent in August from 43.4 percent in July, but 70.9 percent of firms reported no changes in head counts.

It is worth noting that the index of supplier delivery times showed delivery times slowed further in August; in the calculation of the ISM's headline index, slower delivery times add to the headline index, which has been the case in each of the past two months. Whereas slower delivery times are typically associated with rising demand, our suspicion is that in this case slower delivery times reflect what have been growing stresses on supply chains, which is clearly not a positive for the factory sector.

Though not part of the ISM surveys, the monthly data on orders for core capital goods (nondefense capital goods excluding aircraft & parts) are consistent with the premise of the factory sector being in a holding pattern. Core capital goods orders been rangebound since the beginning of 2023, and we've noted that we do not look for a breakout over the remainder of this year. That will likely also be the case for the ISM Manufacturing Index.

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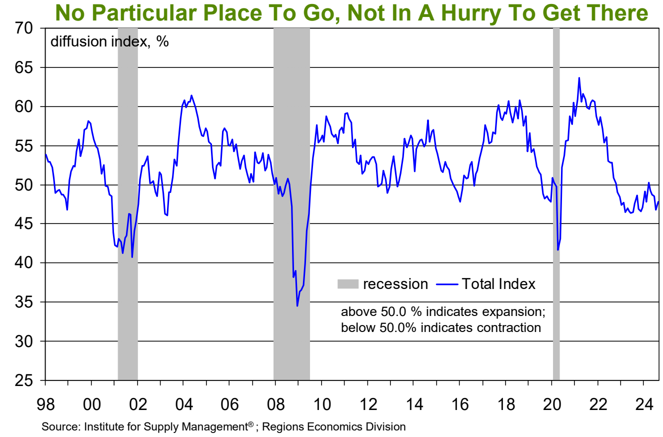
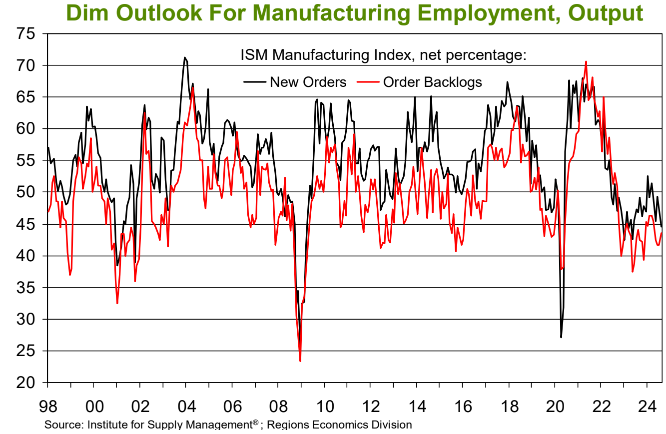
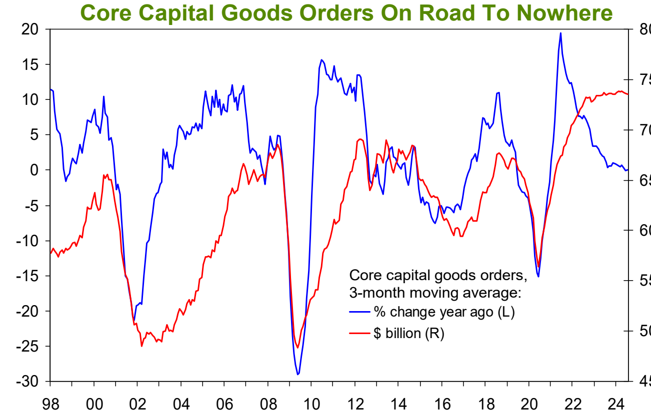


Dim Outlook For Manufacturing Employment, Output



Core Capital Goods Orders On Road To Nowhere



Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com