ECONOMIC UPDATE

REGIONS

July 1, 2025

June ISM Manufacturing Index: Firms Remain In A Holding Pattern

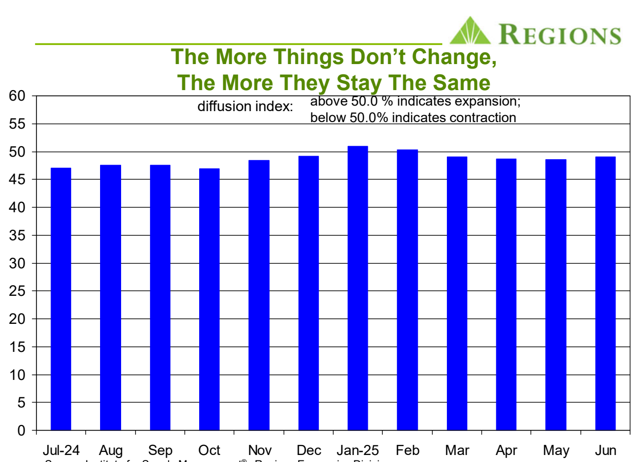
- The ISM Manufacturing Index rose to 49.0 percent in June from 48.5 percent in May
- The new orders index fell to 46.4 percent, the production index rose to 50.3 percent, and the employment index fell to 45.0 percent

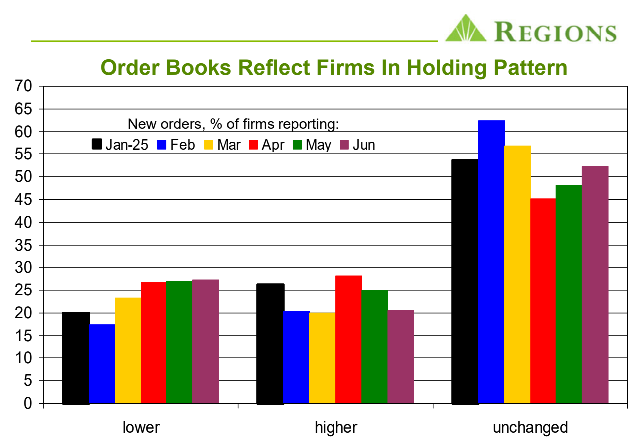
The ISM Manufacturing Index rose to 49.0 percent in June, topping the consensus forecast of 48.8 percent but falling short of our forecast of 49.4 percent, with June marking a fourth straight month of the headline index being on the wrong side of the 50.0 percent break between contraction and expansion. As we noted in this week's *Economic Preview*, we had looked for some modest improvement in the underlying details on the premise that firms have, however grudgingly, at least learned to cope with heightened uncertainty around trade policy as they discount the worst-case outcomes associated with the initial tariff announcements made on April 2. There is at best mixed evidence of that in the June data, and it seems clear that firms for the most part remain in a holding pattern. Whether, or to what extent, that holding pattern was brought about by uncertainty around trade policy is open to interpretation. The reality is that the ISM's headline index has been little changed for some time now, having bounced around within a fairly narrow range going back well before tariffs dominated the economic landscape, not to mention the narratives spun around the economic landscape. We'll admit to having been guilty of this to some extent; as we look back on our notes on the ISM's surveys going back to 2023, we consistently cited a feeble global growth environment as a drag on activity in the manufacturing sector. To be sure, the prospect of higher tariffs didn't exactly do wonders for the global growth outlook, but while tariffs may dominate the economic landscape and surrounding narratives, looking at the narrow range within which the ISM's headline index has been confined suggests that even were there to be greater clarity around trade policy, the boost to the factory sector may not be as powerful as many seem to be counting on. After all, one thing we've consistently noted in our coverage of the ISM surveys over the years is that in any given month either majorities or sizable pluralities of firms report no change in key metrics such as new orders, production, and employment, whereas changes in the diffusion indexes are driven by changes on the margins in the share of firms reporting declines/advances in these metrics. That hasn't changed, even if the reactions to and explanations of these marginal changes have.

Nine of the eighteen broad industry groups included in the ISM's survey reported growth in June, up from seven in May. Comments from survey respondents relayed by ISM are dominated by tariffs and geopolitical tensions. One respondent from the primary metals industry group painted a portrait of a "hellacious" landscape and noted that dealing with a host of economic and geopolitical tensions has led to fatigue setting in. A common theme is how difficult planning has become amid uncertain and rapidly changing policy. Granted, the environment may well have become more frustrating and fatiguing, but if all one were to look at is the headline index over the past two-plus years, one could easily conclude little, if anything, has changed in the economic or geopolitical backdrop.

Our forecast miss on the headline index mainly stems from the new orders index falling short of our expectations. After having edged up to 47.6 percent in May, the new orders index slipped to 46.4 percent in June, with a step down in the percentage of firms reporting higher orders and a modest increase in the percentage of firms reporting lower orders. Seven of the eighteen broad industry groups reported higher orders in June, while seven reported lower orders. At the same time, backlogs of unfilled orders contracted, with June marking the thirty-third straight month in which that has been the case. We noted in this week's *Economic Preview* that, while not included in the calculation of the headline index, it would nonetheless be worth watching the indexes of export and import orders, both of which were notably low in the May survey. As we anticipated, both the index of new export orders and the index of new import orders remained on the wrong side of the 50.0 percent threshold but did show improvement, and it is worth noting that in each case there was a substantial decline in the percentage of firms reporting lower orders. To our earlier point, this could reflect firms not necessarily anticipating things getting better on the trade policy front but at least taking their worst-case scenarios off the table.

Input price pressures remain intense and broadly based, with the prices paid index rising to 69.7 percent. ISM notes that higher prices for steel and aluminum filter through supply chains, which is reflected in what over the past several months has been a steadily rising percentage of firms reporting paying higher input prices. That there has thus far been little evidence of this in final goods prices implies that margin pressures have been intensifying, though this dynamic could shift in the months ahead.





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