BRIDGET McCREA | Contributor

SourceToday

# U.S. Manufacturing Sector Expands for the 26th Straight Month

**The Manufacturing ISM Report On Business paints a picture of a manufacturing sector that continues to expand, although there are some signs of possible headwinds on the near horizon.**

Concerns over inflation, a possible economic slowdown, rising prices and geopolitical events didn't keep the U.S. manufacturing sector from expanding for the 26th month in a row in July. And while that growth was slightly lower than it was in June, a survey from the Institute for Supply Management (ISM) paints a picture of a sector that's holding its own despite the headwinds.

In its latest *Manufacturing ISM Report On Business*, the group says that the purchasing managers' index (PMI), which measures the change in production levels across the domestic economy on a month-by-month basis, stood at 52.8% in July. The index dropped 0.2 percentage points compared to June, when it was 53%. A Manufacturing PMI of higher than 48.7%, over a period of time, generally indicates an expansion of the overall economy.

"This [July] figure indicates expansion in the overall economy for the 26th month in a row after a contraction in April and May 2020," said ISM's Timothy R. Fiore. It's also the lowest PMI figure reported since June 2020, when it registered 52.4%. Four of the largest manufacturing industries—petroleum & coal products; computer & electronic products; transportation equipment; and machinery—all registered moderate-to-strong growth in July.

**Breaking the Numbers Down**

Here's how the other indexes that ISM reports on each month fared in July:

- The New Orders Index registered 48%, 1.2 percentage points lower than the 49.2 percent recorded in June.
- The Production Index reading of 53.5%, which ISM said is a 1.4-percentage point decrease compared to June's figure of 54.9%.
- The Prices Index registered 60%, down 18.5 percentage points compared to the June figure of 78.5% (and the index's lowest reading of 59.5% in August 2020).
- The Backlog of Orders Index registered 51.3%, which was 1.9 percentage points below the June reading of 53.2%.
- The Employment Index contracted for a third straight month at 49.9%, 2.6 percentage points higher than the 47.3% recorded in June.
- The Supplier Deliveries Index reading of 55.2% was 2.1 percentage points lower than the June figure of 57.3%.
- The Inventories Index registered 57.3%, 1.3 percentage points higher than the June reading of 56%.

"The U.S. manufacturing sector continues expanding — though slightly less so in July — as new order rates continue to contract, supplier deliveries improve and prices soften to acceptable levels," Fiore pointed out. He said members of ISM's Business Survey Committee continue to hire at strong rates, with few indications of layoffs, hiring freezes or headcount reduction through attrition.

Fiore goes on to say that while price increases eased in July, instability in global energy markets continues. "Sentiment remained optimistic regarding demand, with six positive growth comments for every 'cautious' comment," he said. "[Committee members] are now expressing concern about a softening in the economy, as new order rates contracted for the second month amid developing anxiety about excess inventory in the supply chain."

**What's Around the Next Corner?**

Looking ahead, ISM is seeing signs of new order rates softening. Companies are increasingly concerned about excessive inventories and long lead times. "Material extended lead times are still affecting business, and the challenging labor market is a huge factor too," said one computer and electronics maker. "Backlog is healthy; we just cannot deliver to customers due to material issues."

Assessing ISM's new report, Bloomberg says that the ISM overall index is down almost 11 points from its multi-decade peak in March of last year, when producers were scrambling to meet pent-up demand as the economy emerged from pandemic lockdowns. "Spending on merchandise has since slowed as consumption patterns started shifting from goods to services," it reports.

"The ISM and S&P Global manufacturing data are consistent with a general slowdown in other parts of the world," *Bloomberg adds*. "European factory activity slumped last month and manufacturing output in Asia continued to weaken."