By BRIDGET MCCREA

U.S. Manufacturing Continues its Expansion Streak

The Manufacturing PMI hits its highest point in more than 50 months in July, indicating continued positive growth for the domestic manufacturing sector.

Amid the ongoing business uncertainty, geopolitical events and economic concerns, the U.S. manufacturing sector continues to post month-over-month gains, according to the latest ISM *Manufacturing PMI Report*. This is positive news for a vital economic engine that's experienced its share of ups and downs over the last few years, and the growth doesn't appear to be letting up.

What's more, nearly all of the industries that ISM tracks posted growth last month, with chemical products being the only one that contracted. This is unusual in that there are usually at least a handful of industries that saw less-than-stellar growth the prior month. In a nutshell, everything from transportation equipment and primary metals to electrical equipment and appliances (plus 11 more) expanded in July.

All Systems Go

According to ISM, the Manufacturing PMI registered 55.6% in July, which was 2.3 percentage points above the June figure and the highest reading since May 2022 (when it was 55.9%). A PMI of more than above 47.5% over a period of time generally indicates an expansion of the overall economy.

Among the report's bright spots:

- The New Orders Index expanded for the seventh consecutive month after four straight readings in contraction, registering 56.7% (versus June's figure of 56%).
- The Employment Index reading of 52.8% increased 3.1 percentage points from June's figure of 49.7%, putting the index in expansion territory for the first time in 33 months.
- The July reading of the Production Index was 58.5%, or 6.3 percentage points higher than the 52.2% recorded in June and the highest figure since November 2021 (when it was 60.5%).
- The Prices Index remained in expansion territory, registering 71.1% (although that was a 1.9-percentage-point decrease from June's reading of 73%).
- The Backlog of Orders Index registered 55%, up 4.5 per centage points compared to the 50.5% the prior month.

"In July, U.S. manufacturing activity remained in expansion territory, growing at its fastest rate in more than four years," says Susan Spence, chair of ISM's Manufacturing Business Survey Committee, in the report. The organization also regularly gathers input from its survey respondents, 38% of whom shared positive comments about the state of their businesses.

For example, one participant who works for a chemical products manufacturer described the current marketplace as being both opportunistic and reactive. "If shortage items become available, we opportunistically buy. Some customers are reducing inventory; others are pulling forward demand. As many customers are slowing down, an equal number are growing. It looks like a lot of shuffling and shifting market share."

A respondent working in computer and electronics manufacturing is seeing a "favorable demand environment" driven by growth in the semiconductor, artificial intelligence (AI), advanced packaging and high-performance computing markets. "Recent company reports indicate strong sales growth and continued investment in manufacturing capacity, technology and customer-support capabilities. This scenario supports a positive business outlook and creates opportunities to leverage increased purchasing scale across the enterprise."

And with the buildout of AI infrastructure globally nearing real activation, someone in the machinery manufacturing sector is seeing big demand for products used to build and run data centers. "Thus, demand for our semiconductor end products and connectivity (power, networking and photonics) is booming. Similarly, defense is at an all-time high, with most of our product orders going to these two industries."

Input Prices Go Up

One less-rosy section of ISM's report involved input prices. It says the Prices Index registered 71.1% in July, a decrease of 1.9 percentage points compared to its June reading of 73%, indicating raw materials prices increased for the 22nd straight month. Of the six largest manufacturing industries, computer & electronic products; machinery; transportation equipment; chemical products; and food, beverage & tobacco products all reported price increases in July.

"The Prices Index reading is still being driven by increases in steel and aluminum prices that impact the entire value chain, tariffs applied to many imported goods and increases in petroleum-based products as a result of the Middle East conflict," says Spence. "Higher prices were reported by 50.2% of respondents in July, down 4.9 percentage points from June."