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May ISM Manufacturing Index: Continuing Expansion Amid A Challenging Landscape

- › The ISM Manufacturing Index rose to 54.0 percent in May from 52.7 percent in April
- › The new orders index rose to 56.8 percent, the production index rose to 54.3 percent, and the employment index rose to 48.6 percent

The ISM Manufacturing Index rose to 54.0 percent in May, topping our forecast of 53.5 percent and the consensus forecast of 53.0 percent. May's reading is the highest point for the headline index since May 2022 and is the fifth straight month in which the headline index has been on the right side of the 50.0 percent break between contraction and expansion, though some continue to question what this streak is really telling us. In case you don't recall, when the headline index topped the 50.0 percent mark in the first two months of 2026, many were quick to write that off as mere start-of-the-year window dressing, such as firms placing orders to shore up inventories. Since the start of the conflict in the Middle East, many have tended to downplay the headline index remaining above 50.0 percent as little more than firms rushing to place orders to get ahead of supply chain disruptions. We never bought the "window dressing" argument, and while it does seem reasonable to think firms are trying to get ahead of supply chain disruptions becoming more binding than is the case at present, we see more genuine signs of improvement in the manufacturing sector. As we've often noted, other indicators such as orders for core capital goods have pointed to such improvement since the back half of 2025, and in some sense the ISM's survey is finally catching up. There are of course still plenty of challenges confronting the manufacturing sector, but we think the manufacturing sector is better positioned to face these challenges than has been the case over the prior few years.

Sixteen of the eighteen broad industry groups included in the ISM survey reported growth in May, up from thirteen in April and the most in any month since April 2022, with wood products the sole industry group reporting contraction. To our point about the challenges confronting the manufacturing sector, ISM reports sixty-nine percent of comments from survey respondents in the May survey were negative, with twenty-five percent of the comments characterized as positive. The war with Iran was cited in forty-two percent of comments, tariffs in eighteen percent, and fifty-seven percent mentioned pricing volatility as an issue for their companies. Unsurprisingly, many of the comments specifically cite higher fuel costs as impacting demand and/or profitability.

In contrast, ISM notes that on the topic of new orders there were 1.6 positive comments for each negative comment, and the index of new

orders rose to 56.8 percent in May from 54.1 percent in April. Moreover, fourteen of the eighteen industry groups reported higher orders in May, the most in any month since November 2021, with wood products the only industry group to report lower orders. At the same time, order backlogs expanded further in May, and the combination of rising new orders and expanding order backlogs bodes well for output growth over coming months. At the same time, firms' assessments of customer inventory levels continue to point to customer inventories as being "too low," which suggests continued growth in orders and output.

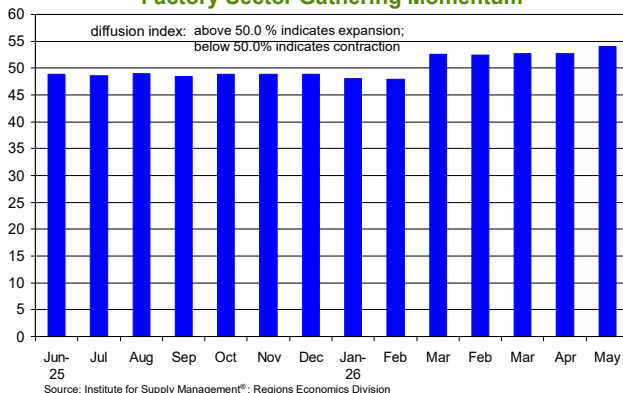
Against the backdrop of expanding orders and expanding order backlogs, the production index rose to 54.3 percent in May, the seventh straight month above the 50.0 percent line. Fourteen of the eighteen industry groups reported higher output in May with, once again, wood products the only industry group on the other side. That said, the employment index remains below the 50.0 percent mark, suggesting that firms have thus far been more reliant on managing hours worked and operating efficiencies to meet higher demand. ISM does note that comments from survey respondents pertaining to hiring versus managing or reducing head counts have become balanced, whereas the latter had been more dominant. Should order books hold up, it would follow that at some point head counts would have to expand, even if at a somewhat restrained pace.

Supplier delivery times continued to slow in May, another sign of a stepped-up pace of activity in the factory sector. While the supplier deliveries index held at 60.6 percent in May – any reading over 50.0 percent indicates slower delivery times – the percentage of firms reporting slower delivery times increased. Keep in mind that slower delivery times are interpreted as a sign of rising demand and, as such, support the headline index, and it could be that supply chain disruptions are contributing to slower delivery times, but that should not take away from the signals being sent by new orders and production.

Though input price pressures eased marginally in May, the prices paid index nonetheless came in at 82.1 percent, the second straight month over 80 percent. Two-thirds of firms reported paying higher input prices in May. Between higher tariffs, elevated energy costs, and rising demand, prospects for near-term cost relief seem dim.



Factory Sector Gathering Momentum



Firmer Order Books In Line With Other Indicators

