



Manufacturing Holds Just Below Expansion

Manufacturing Cools but Remains Resilient

- ▲ The ISM Manufacturing PMI rose 0.5 points to 49.0 in June, marking its fourth straight month below 50 but showing continued stabilization.
- ▲ New orders softened to 46.4, pointing to ongoing weakness in underlying demand.
- ▲ Production ticked up to 50.3, just above breakeven, driven by easing supply chain bottlenecks.
- ▲ The employment index fell to 45.0 as firms remain cautious about hiring and leave positions open to help curb costs.
- ▲ Prices paid rose to 69.7, reflecting intensifying input cost pressures.
- ▲ ***Alan Greenspan once called the ISM his favorite economic indicator, praising its timeliness and ability to capture cyclical inflection points. The latest reading suggests we are not yet at such a juncture, and the Fed can afford to wait for greater clarity on the evolving tariff landscape and fiscal policy mix. While still soft, the PMI remains closer to expansion (50+) than to levels typically associated with recession (43.7 or lower).***

Modest Uptick Masks Continued Crosscurrents

As we expected, the ISM Manufacturing Index remained just below the key 50-breakeven level in June, rising to 49.0 from 48.5 in May. As a diffusion index, the ISM measures the breadth of change rather than magnitude—so while more firms reported weakening conditions than improving, the reading remains **well above the 43.7** mark that historically signals a broad-based recession.

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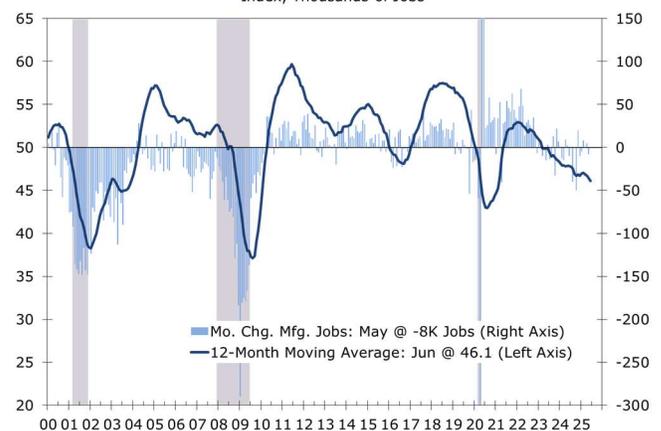
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Production rose for a second straight month and eked into expansion territory, reflecting slightly better delivery times and inventory normalization. Businesses are holding off major commitments but with lean customer inventories and solid order backlogs, production should hold up reasonably well. The resilience in production, however, was offset by a decline in new orders, which fell 1.2 points to 46.4, marking a renewed pullback in forward demand.

Rising costs continue to squeeze manufacturers, which is slowing hiring and capital spending.

The employment index slipped to 45.0, reflecting increased hesitation to bring on new staff. Most survey managers noted they are controlling costs via hiring freezes and reduced overtime, rather than mass layoffs. That aligns with broader labor market trends: manufacturing job growth is flat, but layoffs remain contained. The latest JOLTS data show 414,000 manufacturing job openings in May, up slightly from April but down from 576,000 openings a year ago.

ISM Employment Index & Manufacturing Jobs
Index, Thousands of Jobs



Source: Institute for Supply Management and Bureau of Labor Statistics

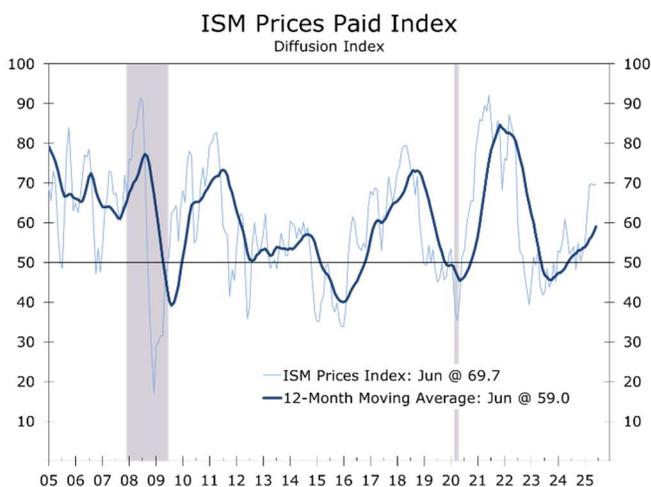


Margin Pressure Replaces Tariff Anxiety

The narrative has shifted from tariffs to margin pressure. Input costs are rising while final demand remains soft, squeezing manufacturers from both sides. The ISM Prices Paid Index rose 0.3 points to 69.7—its highest level since June 2022—driven by metals, chemicals, and freight. Over the past six months, the index has climbed 17.2 points, while longer supplier delivery times are complicating production planning.

Though financial markets have largely moved on from tariffs, manufacturers have not. Survey comments highlight persistent sourcing frictions and cost mismatches, particularly for intermediate goods. Customer resistance is increasing, making it harder to pass on price increases. Overseas, geopolitical uncertainty continues to dampen demand.

Export orders rose 6.2 points to 46.3, reflecting modest improvement after recent tariff reprieves with some major trading partners. But firms are still waiting on more clarity around trade agreements. Imports slipped again, as manufacturers continue to scale back inventories. Customer inventories rose 2.2 points to 46.7, indicating some capacity for restocking if demand improves and tariff risks subside. Meanwhile, backlogs dropped 2.8 points to 44.3, pointing to a softening production pipeline and a more guarded outlook



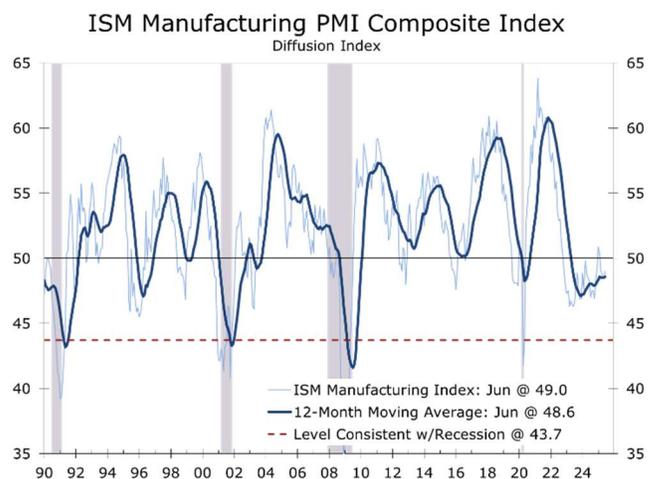
Source: Institute for Supply Management

Outlook & Policy Implications

The June report confirms that manufacturing remains in a cautious holding pattern. Businesses are navigating a complex mix of excruciating slowly fading tariff threats, resurfacing cost pressures, and lackluster demand. That triple squeeze is forcing firms to cut costs, delay hiring, and tighten capex plans.

For policymakers, the ISM data suggest fragility—not crisis. Factory activity remains soft but above recessionary levels. The Fed will likely view this as another reason to stay patient, monitoring how pricing power and demand evolve before moving on rates. We continue to expect the next cut in September, followed by quarter-point reductions at each of the next three meetings.

Former Fed Chair Alan Greenspan once said the PMI “tells you where the turning points are.” Right now, it signals we’re not there yet. Manufacturers remain under pressure, but that strain is also keeping higher import costs from spilling into consumer prices. More pass-throughs are likely this summer, but slower growth should cap inflation. We expect lower rates, improving trade dynamics, and renewed capital spending to lift growth next spring and summer.



Source: Institute for Supply Management and Census Bureau

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