ECONOMIC UPDATE

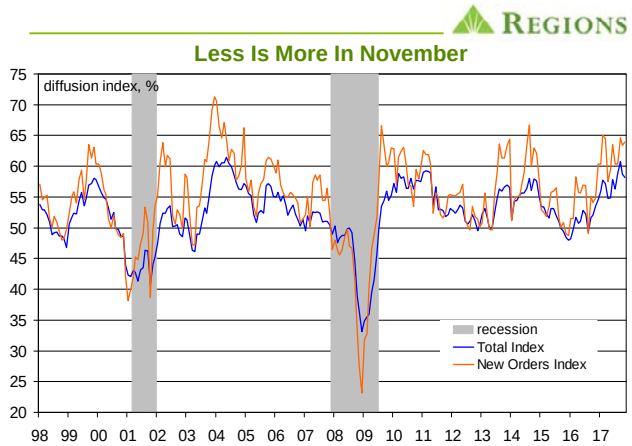
REGIONS

December 1, 2017

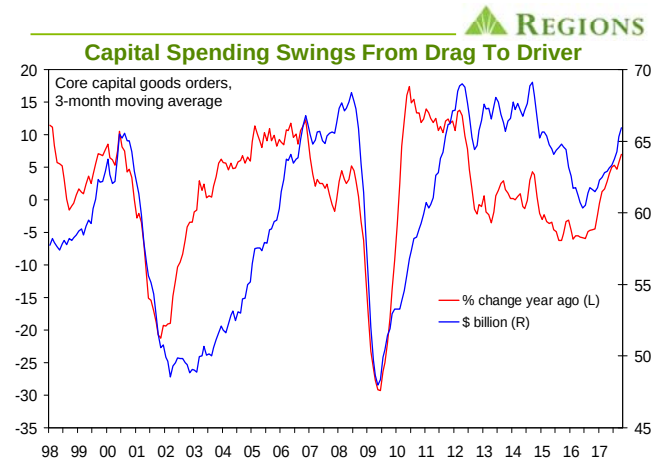
November ISM Manufacturing Index: Less Is More In November

- The ISM Manufacturing Index fell to 58.2 percent in November from 58.7 percent in October
- The new orders component rose to 64.0 percent, the employment component fell to 59.7 percent, and new export orders rose.

The ISM Manufacturing Index fell to 58.2 percent in November, shy of our forecast of 58.4 percent, yet the details of the November report are more constructive than was the case with the October report, which came with a 58.7 percent print on the headline index. November marks the 15th consecutive month in which the headline index was above the 50.0 percent break between contraction and expansion in the factory sector. November's decline in the headline index is entirely due some easing in supplier delivery times, which slowed significantly in September and October in the wake of Hurricanes Harvey and Irma. The components on new orders and current production increased in November, the employment component remained at a high level, and new export orders increased once again. So, yes, sometimes less (in the form of a lower headline index) really is more (in the form of firmer underlying details).

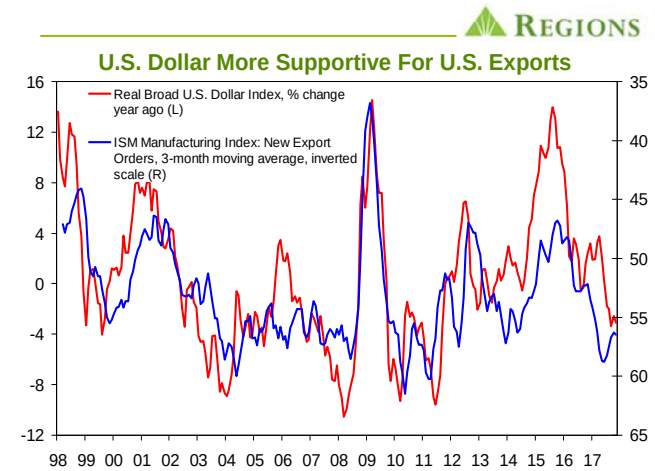


Of the 18 industry groups included in the ISM survey, 14 reported expansion in November with only two – wood products and petroleum & coal products – logging declines in activity. Comments from survey respondents were notably upbeat, with a consistent theme being strength of demand. Several respondents noted that they have yet to see any evidence of the seasonal slowdowns that typically come at year-end. Some also noted rising backlogs of unfilled orders, which bodes well for production and employment over coming months. The November data bring evidence of some easing of price pressures, with the index of prices paid (which does not factor into the calculation of the headline index) falling to 65.5 percent after having jumped to 71.5 percent in September in the wake of the hurricanes. Still, the prices paid index remains above its pre-hurricane average.



As noted above, one impact of the hurricanes had been to lengthen supplier delivery times, with the corresponding index jumping to 64.4 percent in September, the highest level since July 2004. With supply chains moving more normally, even if not completely so, in October, the index of delivery times fell and this continued in November, with the index coming in at 56.5 percent (note that a reading of above 50 percent indicates slower delivery times). To be sure, delivery times had become progressively slower prior to the hurricanes, which is consistent with an accelerating pace of activity in the manufacturing sector, and are likely to remain slow over coming months. What we are seeing now is simply the unwinding of delivery constraints tied to the hurricanes.

The index or new orders rose to 64.0 percent in November, and has now been above 60.0 percent for 12 consecutive months. Of the 18 industry groups in the ISM's survey, 14 reported higher orders in November with two reporting lower order volumes. The index of current production jumped to 63.9 percent, the highest since March 2011 when the factory sector was still in the early phases of recovering from the 2007-09 recession. November saw 14 of the 18 industry groups report rising output levels while none reported a decline. Persistently strong new orders and rising output levels are consistent with further increases in employment and, despite slipping from 59.8 percent in October to 59.7 percent in November, the ISM's gauge of factory payrolls remains consistent with the steady job gains seen in the past several monthly employment reports. U.S. manufacturers are benefitting not only from rising domestic demand but ongoing growth in foreign demand. At 56.0 percent in November, the ISM's gauge of new export orders has remained above the 50.0 percent mark – indicating growth in export orders – for 21 consecutive months.



The U.S. manufacturing sector remains in the midst of a steady and broad based expansion that figures to endure over coming quarters.. While a slowdown in motor vehicle sales and U.S. trade policy pose downside risks, the broad based expansion is likely to endure over coming quarters.

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