ECONOMIC UPDATE

REGIONS

February 1, 2019

This Economic Update may include opinions, forecasts, projections, estimates, assumptions and speculations (the "Contents") based on currently available information which is believed to be reliable and on past, current and projected economic, political, and other conditions. There is no guarantee as to the accuracy or completeness of the Contents of this Economic Update. The Contents of this Economic Update reflect judgments made at this time and are subject to change without notice, and the information and opinions herein are for general information use only. Regions specifically disclaims all warranties, express or implied, with respect to the use of or reliance on the Contents of this Economic Update or with respect to any results arising therefrom. The Contents of this Economic Update shall in no way be construed as a recommendation or advice with respect to the taking of any action or the making of any economic, financial, or other plan or decision.

January ISM Manufacturing Index: A Solid Start To 2019, But Concerns Linger

- The ISM Manufacturing Index rose to 56.6 percent in January from 54.3 percent in December
- The new orders index rose to 58.2 percent, the employment index slipped to 55.5 percent, the production index rose to 60.5 percent

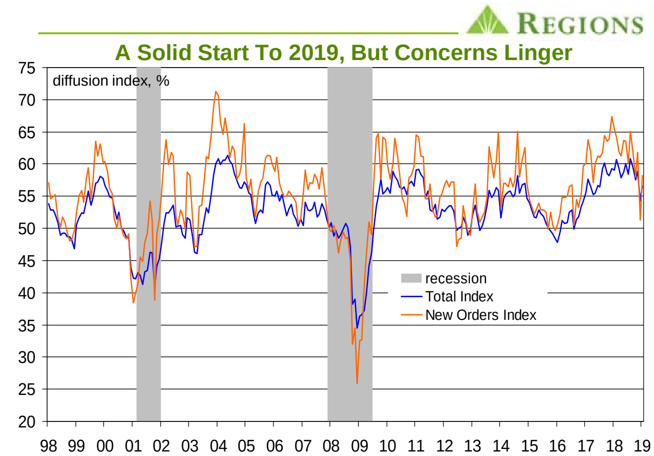
The January employment report may have been the data highlight of the week, but we felt the January ISM Manufacturing Index would be the most important report of the week. Though December's headline index pointed to continued growth in the factory sector, the details of the December report were disturbingly weak, particularly the precipitous decline in the new orders component. As such, we wondered whether December would prove to have been the tipping point for the factory sector, hence our attaching so much significance to the January report. As it turns out, our worries were if not unfounded then at least premature – the ISM Manufacturing Index rose to 56.6 percent, topping our above-consensus forecast of 54.8 percent. More significantly, the components for current production and new orders rebounded smartly and, though slipping a bit, the employment component points to further growth in manufacturing payrolls. So, while trade policy and a slowing global growth environment remain concerns, at least for now the U.S. manufacturing sector continues to hold its own, with January marking the 29th consecutive month in which the headline index stood above the 50.0 percent break between expansion and contraction.

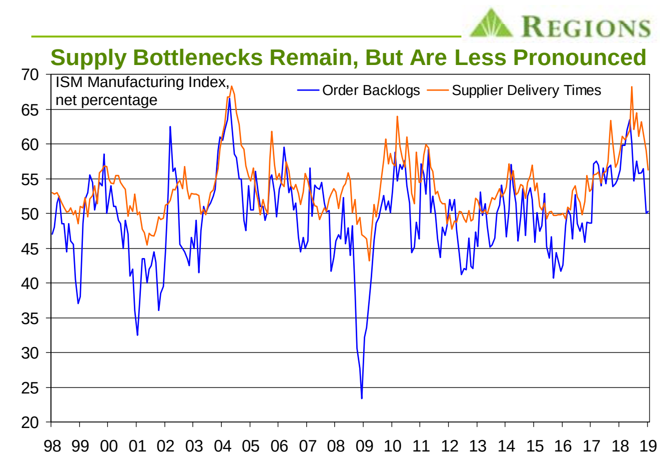
Of the 18 industry groups included in the ISM survey, 14 reported growth in January, up from 11 in December, and only one industry group – nonmetallic mineral products – reported contraction. Comments from survey respondents were generally positive, but falling oil prices and margin pressures were cited as concerns. One respondent from the food, beverage, & tobacco products industry group cited an adverse impact from the partial government shutdown, but that is a transitory (for now, anyway) hold-up as opposed to a deterioration in industry fundamentals. On the whole, comments from survey respondents continue to signal steady growth in the manufacturing sector.

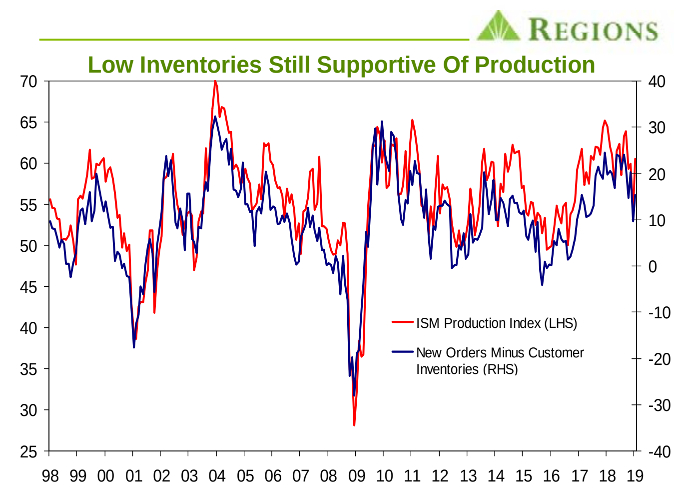
Out of all of the numbers released in the various reports this week, the one we were anticipating the most was the new orders index from the ISM's manufacturing survey. We routinely cite the ISM's gauge of new manufacturing orders as one of our favorite forward looking indicators, so naturally we were alarmed when the new orders index plummeted to 51.3 percent in December from 61.8 percent in November and even more so when we saw that only six of the 18 industry groups reported growth in orders in December while five reported declines in orders. In that sense, the January data come as a relief, with the new orders index rising to 58.2 percent, with 11 of the 18 industry groups reporting growth in orders and only one reporting lower order volumes. A similar pattern is seen in the current production index, which fell from 59.9 percent in November to 54.1 percent in December before bouncing back to 60.5 percent in January. Fourteen of the 18 industry groups reported increased production in January and only one reported lower production.

Two additional details stood out to us in the December data – the sharp declines in the indexes measuring supplier delivery times and backlogs of unfilled orders. These had been the two components that to us best signaled how stretched manufacturers had become to simply keep pace with growth in demand. January saw further, although very modest, growth in backlogs of unfilled orders while supplier delivery times slowed a bit further. Our concern had been that new orders may be drying up at the same time manufacturers were working off order backlogs, which would have threatened production and employment over the months ahead. For now, however, further growth in new orders and the backlog of unfilled orders suggest production and employment will continue to grow over coming months, particularly as firms continue to assess customer inventories as being too low.

We noted last month that it would take time to get a definitive answer to all of the questions raised by the December data. The better January data notwithstanding, that is still the case, particularly with a still-high degree of uncertainty on the trade front.







Regions Financial Corporation, 1900 5th Avenue North, 17th Floor, Birmingham, Alabama 35203
Richard F. Moody, Chief Economist • 205.264.7545 • richard.moody@regions.com