Economic activity in the manufacturing sector contracted in June for the first time since July 2009; however, the overall economy grew for the 37th consecutive month, say the nation’s supply executives in the latest Manufacturing ISM Report On Business®.

The PMI registered 49.7 percent, a decrease of 3.8 percentage points from May’s reading of 53.5 percent, indicating contraction in the manufacturing sector for the first time since July 2009, when the PMI registered 49.2 percent. The New Orders Index dropped 12.3 percentage points in June, registering 47.8 percent and indicating contraction in new orders for the first time since April 2009. The Production Index registered 51 percent, and the Employment Index registered 56.6 percent. The Prices Index for raw materials decreased significantly for the second consecutive month, registering 37 percent, which is 10.5 percentage points lower than the 47.5 percent reported in May. Comments from the panel range from continued optimism to concern that demand may be softening due to uncertainties in the economies in Europe and China.

Of the 18 manufacturing industries, seven are reporting growth in June, in the following order: Furniture & Related Products; Printing & Related Support Activities; Fabricated Metal Products; Miscellaneous Manufacturing‡; Electrical Equipment, Appliances & Components; Machinery; and Primary Metals.

A PMI in excess of 42.6 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the June PMI indicates growth for the 37th consecutive month in the overall economy, but indicates contraction in the manufacturing sector for the first time since July 2009, when the PMI registered 49.2 percent. The past relationship between the PMI and the overall economy indicates that the average PMI for January through June (53 percent) corresponds to a 3.5 percent increase in real gross domestic product (GDP). In addition, if the PMI for June (49.7 percent) is annualized, it corresponds to a 2.4 percent increase in real GDP annually.
**PRODUCTION**

ISM’s Production Index registered 51 percent in June, which is a decrease of 4.6 percentage points when compared to the 55.6 percent reported in May. The eight industries reporting growth in production during the month of June — listed in order — are: Fabricated Metal Products; Furniture & Related Products; Miscellaneous Manufacturing; Machinery; Printing & Related Support Activities; Electrical Equipment, Appliances & Components; Transportation Equipment; and Computer & Electronic Products.

**NEW ORDERS**

ISM’s New Orders Index registered 47.8 percent in June, which is a decrease of 12.3 percentage points when compared to the May reading of 60.1 percent. The seven industries reporting growth in new orders in June — listed in order — are: Printing & Related Support Activities; Furniture & Related Products; Miscellaneous Manufacturing; Fabricated Metal Products; Primary Metals; Electrical Equipment, Appliances & Components; and Paper Products.

**EMPLOYMENT**

ISM’s Employment Index registered 56.6 percent in June. Of the 18 manufacturing industries, 11 reported growth in employment in June in the following order: Fabricated Metal Products; Furniture & Related Products; Machinery; Miscellaneous Manufacturing; Electrical Equipment, Appliances & Components; Printing & Related Support Activities; Petroleum & Coal Products; Primary Metals; Chemical Products; Food, Beverage & Tobacco Products; and Transportation Equipment.

**SUPPLIER DELIVERIES**

The delivery performance of suppliers to manufacturing organizations was faster in June as the Supplier Deliveries Index registered 48.9 percent. The seven industries reporting slower supplier deliveries in June — listed in order — are: Petroleum & Coal Products; Chemical Products; Primary Metals; Electrical Equipment, Appliances & Components; Miscellaneous Manufacturing; Food, Beverage & Tobacco Products; and Computer & Electronic Products.

**INVENTORIES**

The Inventories Index registered 44 percent in June, which is 2 percentage points lower than the 46 percent reported in May. This month’s reading indicates that respondents are reporting inventories are contracting, which has been the case in eight of the last nine months. The five industries reporting higher inventories in June are: Wood Products; Furniture & Related Products; Electrical Equipment, Appliances & Components; Machinery; and Food, Beverage & Tobacco Products.

**CUSTOMERS’ INVENTORIES**

The ISM Customers’ Inventories Index registered 48.5 percent in June, which is 5 percentage points higher than in May when the index registered 43.5 percent. A reading below 50 percent indicates customers’ inventories are considered too low. The five manufacturing industries reporting customers’ inventories as being too high during June are: Apparel, Leather & Allied Products; Fabricated Metal Products; Primary Metals; Chemical Products; and Food, Beverage & Tobacco Products.

**PRICES**

ISM’s Prices Index registered 37 percent in June, which is a decrease of 10.5 percentage points compared to the May reading of 47.5 percent. This is the second consecutive month the index has reflected a decrease in the price of raw materials since December 2011. Three manufacturing industries reported paying increased prices during the month of June: Furniture & Related Products; Printing & Related Support Activities; and Primary Metals.

**BACKLOG OF ORDERS**

ISM’s Backlog of Orders Index registered 44.5 percent in June, which is 2.5 percentage points lower than the 47 percent reported in May. The five industries reporting increased order backlogs in June are: Furniture & Related Products; Primary Metals; Printing & Related Support Activities; Chemical Products; and Miscellaneous Manufacturing.

**NEW EXPORT ORDERS**

ISM’s New Export Orders Index registered 47.5 percent in June, which is 6 percentage points lower than the 53.5 percent reported in May, and represents the first month of contraction in the index since June 2009. The six industries reporting growth in new export orders in June — listed in order — are: Textile Mills; Wood Products; Furniture & Related Products; Fabricated Metal Products; Miscellaneous Manufacturing; and Electrical Equipment, Appliances & Components.

**IMPORTS**

ISM’s Imports Index registered 53.5 percent in June, the same percentage rate as reported for four consecutive months. The Imports Index reflects seven months of growth following only two months of contraction in the past 34 months. The six industries reporting growth in imports during the month of June — listed in order — are: Furniture & Related Products; Fabricated Metal Products; Paper Products; Machinery; Transportation Equipment; and Primary Metals.