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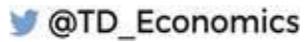
Data Release: U.S. manufacturing activity gathers speed in June

- The Institute for Supply Management (ISM) manufacturing index advanced by 1.9 points to 53.2 in June. The print was ahead of the market expectation which called for an unchanged reading of 51.3, and marks the fourth consecutive month of expanding manufacturing activity.
- The gains were broad-based, with nine out of ten components rising on the month. The increase in current production (+2.1 to 54.7) was accompanied by decent gains in forward-looking indicators. New orders (+1.3 to 57.0), backlog of orders (+5.5 to 52.5), and employment (+1.2 to 50.4) all rose in June, suggesting some upside to near-future activity. The employment subcomponent emerged from contractionary territory, where it was stuck since December 2015.
- Trade indicators continued to improve in June with both import (+2.0 to 52.0) and export (+1.0 to 53.5) subcomponents moving higher.
- Meanwhile, after a blockbuster run-up during the previous four months, prices paid subcomponent eased off (-3.0 to 60.0), but remained near the highest level in more than two years indicating high raw material price pressures.
- Thirteen of the eighteen manufacturing industries reported growth in June – up from twelve in May and a substantial improvement from the low of 5 seen in November of 2015. Output contracted in three industries – Electrical Equipment, Appliances & Components; Transportation Equipment; and Plastics & Rubber Products – and was unchanged in two.

Key Implications

- This is an encouraging report, suggesting that U.S. manufacturing activity continues to rebound following last year's slump. Expanding production across most industries, gains in forward-looking indicators and positive comments from survey respondents all suggest that an uptick is likely to be sustained over the next few months.
- The improvement in factory activity has been underpinned by robust domestic demand and some stabilization in the energy sector. External headwinds emanating from strong dollar and weak global demand have also abated somewhat. However, given the uncertainty generated by Brexit and the renewed pressure on the dollar, the drag from international trade could build up once again in the second half of the year.
- While fallout from U.K.'s referendum could slow the pace of improvement in the manufacturing sector as the year progresses, our recent [Economic Forecast Update](#) suggests that the overall implications for the U.S. economy will be relatively modest, shaving just 0.1 percentage points from the headline growth this year and next. This is also echoed by results from the special supplement to the survey, conducted by the ISM following the referendum. Sixty one percent of respondents expected "negligible" financial impact on their business due to Brexit, while 27% expected a "slightly negative" impact.

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