

June ISM Manufacturing Index

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- The ISM manufacturing index declined to 49.7 in June from 53.5 in May, coming in well below the consensus expected 52.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- Most major measures of activity fell in June. The new orders index fell to 47.8 from 60.1, the production index fell to 51.0 from 55.6, and the employment index declined to 56.6 from 56.9. The supplier deliveries index ticked up to 48.9 from 48.7.
- The prices paid index dropped to 37.0 in June from 47.5 in May.

Implications: For the first time since mid-2009, the ISM Manufacturing index came in below 50, signaling contraction in the factory sector. However, it's important to keep in mind that when financial strains, such as recent news out of Europe, push down consumer confidence, it also often pushes down the ISM index as well. In other words, today's below-50 ISM index does not signal a recession and probably underestimates actual business activity in the factory sector. Notably, the employment index fell only slightly, to a still robust 56.6. On the inflation front, the prices paid index plummeted to 37.0 in June, the lowest level since April 2009, reflecting the steep recent drop in energy prices and other commodities. Given the loose stance of monetary policy, we expect the ISM index to soon rebound, both for activity indicators as well as prices. For the time being, though, today's ISM report is consistent with our forecast that real GDP grew at about a 1.5% annual rate in Q2. In other news this morning, the Census Bureau reported that construction spending increased 0.9% in May, easily beating the consensus expected gain of 0.2%. The gains in May were led by housing, which was up 3%. Commercial construction was up 0.4%, led by manufacturing facilities. Government projects fell, largely due to less school construction.

ISM Mfg: PMI Composite Index
 SA, 50+ = Econ Expand



ISM Mfg: Production Index
 SA, 50+ = Econ Expand
ISM Mfg: New Orders Index
 SA, 50+ = Econ Expand



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Jun-12	May-12	Apr-12	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	49.7	53.5	54.8	52.7	53.0	55.8
New Orders	47.8	60.1	58.2	55.4	55.5	53.6
Production	51.0	55.6	61.0	55.9	56.2	55.9
Inventories	44.0	46.0	48.5	46.2	47.9	53.5
Employment	56.6	56.9	57.3	56.9	55.7	61.0
Supplier Deliveries	48.9	48.7	49.2	48.9	49.6	55.2
Order Backlog (NSA)	44.5	47.0	49.5	47.0	49.7	49.0
Prices Paid (NSA)	37.0	47.5	61.0	48.5	53.9	68.0
New Export Orders	47.5	53.5	59.0	53.3	54.8	53.5

Source: National Association of Purchasing Management