

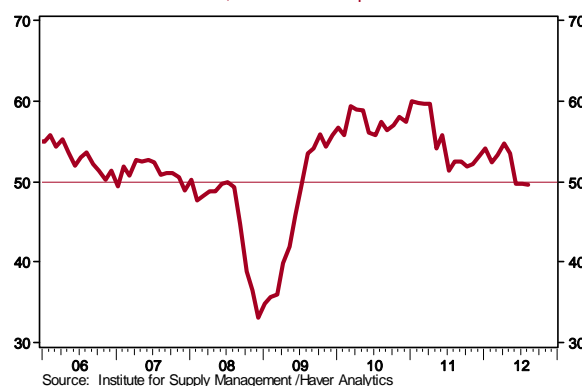
August ISM Manufacturing Index

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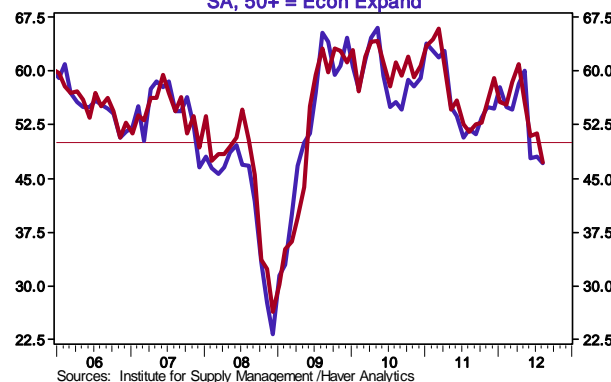
- The ISM manufacturing index declined to 49.6 in August from 49.8 in July, coming in below the consensus expected 50.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in August. The new orders index declined to 47.1 from 48.0, the production index slipped to 47.2 from 51.3 and the employment index dipped to 51.6 from 52.0. The supplier deliveries index rose to 49.3 from 48.7.
- The prices paid index rose to 54.0 in August from 39.5 in July.

Implications: The ISM manufacturing index came in below 50 for the third month in a row. On its face, this suggests a contraction in the factory sector. However, as we've been repeating the past few months, it's important to keep in mind that when financial strains (such as news out of Europe) and uncertainty out of Washington push down consumer confidence, it also often pushes down the ISM index as well. In other words, recent sub-50 ISM reports do not signal a recession and probably underestimate actual business activity in the factory sector. This view is supported by looking at the manufacturing group in industrial production. Even though the ISM manufacturing index contracted in June and July, manufacturing output rose in both months. Early signs suggest continued growth in August. Notably from today's report, although the employment index fell to 51.6 it continues to show expansion. On the inflation front, the prices paid index rose to 54.0 in August from 39.5 in July, reflecting a bounce back from the recent steep drop in energy prices and other commodities. In other news this morning, the Census Bureau reported that construction fell 0.9% in July, coming in below the consensus expected gain of 0.4%. The decline in July was led by home improvements, which are still up 15% from a year ago. Commercial construction also declined in July, led by power plants and manufacturing facilities. However, both of these categories are up around 20% from a year ago.

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>	Aug-12	Jul-12	Jun-12	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	49.6	49.8	49.7	49.7	51.8	52.5
New Orders	47.1	48.0	47.8	47.6	52.6	51.8
Production	47.2	51.3	51.0	49.8	54.1	51.5
Inventories	53.0	49.0	44.0	48.7	48.4	54.5
Employment	51.6	52.0	56.6	53.4	55.1	53.6
Supplier Deliveries	49.3	48.7	48.9	49.0	48.8	51.2
Order Backlog (NSA)	42.5	43.0	44.5	43.3	46.5	46.0
Prices Paid (NSA)	54.0	39.5	37.0	43.5	50.0	55.5
New Export Orders	47.0	46.5	47.5	47.0	51.3	50.5

Source: National Association of Purchasing Management