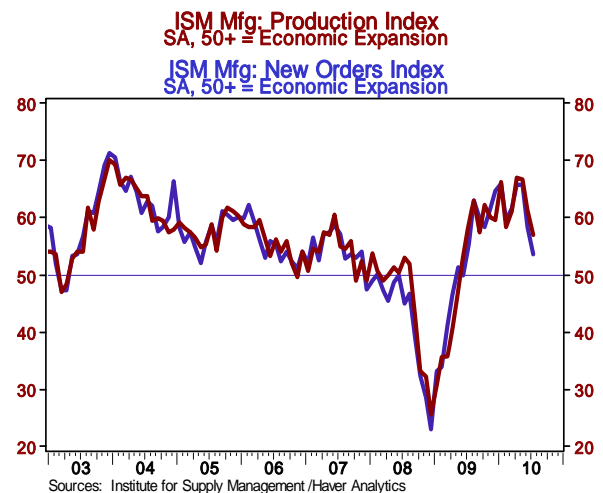
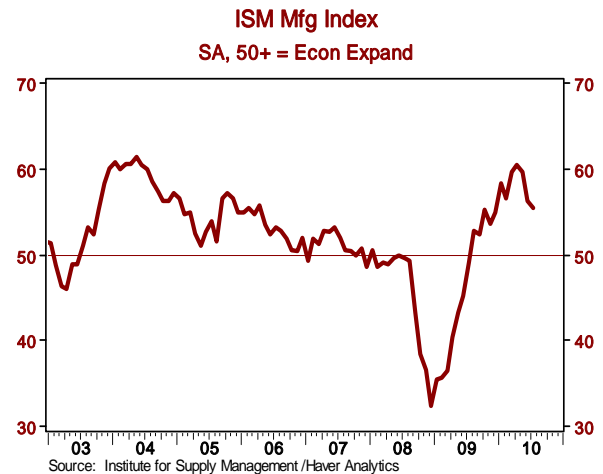


JULY ISM MANUFACTURING INDEX

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- The ISM Manufacturing index fell to a still strong 55.5 in July from 56.2 in June, beating the consensus expected level of 54.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in July but all are above 50.0, signaling growth. The supplier deliveries index increased to 58.3 from 57.3, continuing to signal a need to build out capacity. The employment index increased to 58.6 from 57.8. The new orders index declined to 53.5, and the production index fell to 57.0.
- The prices paid index increased to 57.5 in July from 57.0 in June.

Implications: The factory sector expanded for the 12th consecutive month in July. The ISM manufacturing index fell slightly to 55.5, but according to the Institute for Supply Management, July’s index level is consistent with real GDP growth of 4.5% annually. Forward-looking indicators are still up, with the new orders index at 53.5 and supplier deliveries index rising to 58.3 (the higher the number, the slower are deliveries). The employment index has been above 50 since December 2009. During those eight consecutive months it has averaged 56.2 – better than any eight month period since early in 2005. Look for another manufacturing payroll gain in July (reported Friday). On the inflation front, the prices paid index remains at elevated levels above 50 signaling that inflation, not deflation is in the cards. Every day the Fed holds rates near zero, monetary policy becomes more and more of a threat for future price increases. In other news, construction spending increased 0.1% in June. This was well above consensus estimates, but including revisions to previous months construction fell 0.7%. State and local construction was up 1.1% in June, residential building was down 0.8%, mostly due to a drop in home improvements, and commercial construction fell 0.5%.



Institute for Supply Management Index	Jul-10	Jun-10	May-10	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	55.5	56.2	59.7	57.1	58.0	49.1
<i>New Orders</i>	53.5	58.5	65.7	59.2	60.7	55.5
<i>Production</i>	57.0	61.4	66.6	61.7	61.9	59.0
<i>Inventories</i>	50.2	45.8	45.6	47.2	48.9	33.3
Employment	58.6	57.8	59.8	58.7	57.7	45.9
<i>Supplier Deliveries</i>	58.3	57.3	61.0	58.9	60.7	51.7
<i>Order Backlog (NSA)</i>	54.5	57.0	59.5	57.0	57.9	50.0
<i>Prices Paid (NSA)</i>	57.5	57.0	77.5	64.0	68.7	55.0
<i>New Export Orders</i>	56.5	56.0	62.0	58.2	58.9	50.5

Source: National Association of Purchasing Management