

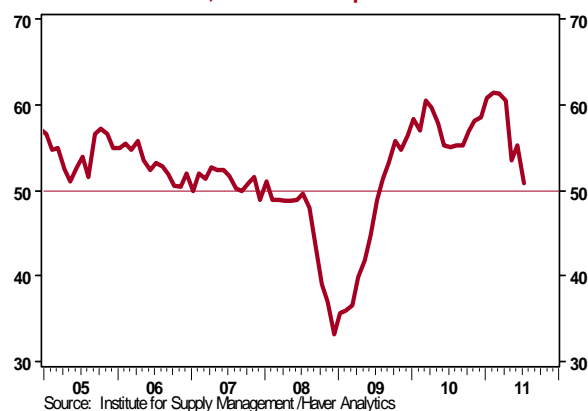
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July ISM Manufacturing Index

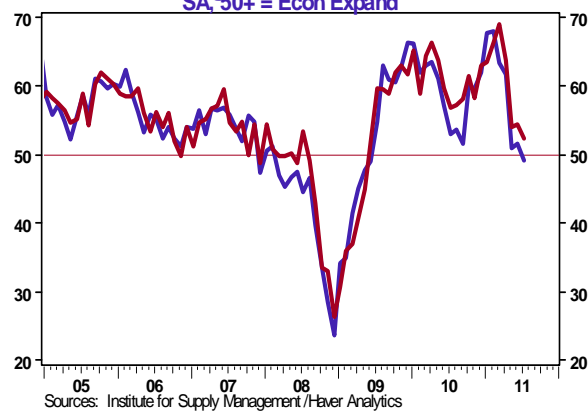
- The ISM Manufacturing index fell to 50.9 in July from 55.3 in June, coming in well below the consensus expected decline to 54.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity all fell in July, but most remained above 50.0, signaling growth. The supplier deliveries index slipped to 50.4 from 56.3 and the production index fell to 52.3 from 54.5. The new orders index declined to 49.2 from 51.6 and the employment index fell to 53.5 from 59.9.
- The prices paid index declined to a still elevated 59.0 in July from 68.0 in June.

Implications: From time to time, the ISM index is a better measurement of sentiment among manufacturers than actual levels of activity. We think July – a month dominated by (misleading) headlines about a potential default on US Treasury securities – was one of those months. As a result, we do not read much into the ISM index coming in well below consensus expectations and anticipate a large rebound next month. Taken at face value, the 50.9 reading on the ISM may be disappointing, but it still correlates with 2.9% real growth according to officials at the ISM. News from the auto sector suggests the supply-chain disruptions due to Japan are dissipating. That was also the message from last week’s large drop in initial unemployment claims. Auto production will keep rebounding as inventories are low and getting more cars on lots will generate more sales. In other news this morning, construction increased 0.2% in June and rose 2.5% including large upward revisions for prior months. The revisions were widespread, including home building, commercial construction, and government projects. The rise in June was due to commercial construction, primarily manufacturing facilities, retail shops, and communications structures. We did not go into a double-dip at the start of the year, we are not entering one now, and there is no need for the third round of quantitative easing.

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	Jul-11	Jun-11	May-11	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	50.9	55.3	53.5	53.2	57.1	55.1
<i>New Orders</i>	49.2	51.6	51.0	50.6	57.5	52.9
<i>Production</i>	52.3	54.5	54.0	53.6	60.0	56.9
<i>Inventories</i>	49.3	54.1	48.7	50.7	50.3	50.3
<i>Employment</i>	53.5	59.9	58.2	57.2	60.3	57.6
<i>Supplier Deliveries</i>	50.4	56.3	55.7	54.1	57.5	58.0
<i>Order Backlog (NSA)</i>	45.0	49.0	50.5	48.2	52.8	54.5
<i>Prices Paid (NSA)</i>	59.0	68.0	76.5	67.8	76.0	57.5
<i>New Export Orders</i>	54.0	53.5	55.0	54.2	57.2	56.5

Source: National Association of Purchasing Management