

## July ISM Manufacturing Index

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- The ISM manufacturing index increased to 49.8 in July from 49.7 in June, coming in below the consensus expected 50.2. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in July. The new orders index rose to 48.0 from 47.8, the production index gained to 51.3 from 51.0. The supplier deliveries index declined to 48.7 from 48.9 and the employment index fell to 52.0 from 56.6.
- The prices paid index rose to 39.5 in July from 37.0 in June.

**Implications:** The ISM manufacturing index came in below 50 for the second month in a row, suggesting a 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, recent sub-50 ISM reports do not signal a recession and probably underestimate actual business activity in the factory sector. Notably, although the employment index fell to 52.0 it continues to show expansion. On the inflation front, the prices paid index rose to a still depressed 39.5 in July, reflecting the recent steep 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. In other news this morning, the ADP Employment report showed an increase of 163,000 in private payrolls in July, beating the consensus expected gain of 120,000. Based on these data as well as yesterday's Intuit report on small business hiring, we are raising our forecast for Friday's official payroll report to 125,000 nonfarm jobs and 135,000 private. In still other news this morning, the Census Bureau reported that construction spending increased 0.4% in June, matching consensus expectations. Including revisions to April/May, construction was up 1.5%. The gains in June were led by housing, which was up 1.3%. Commercial construction was up 0.4%, led by manufacturing facilities. Total public construction was unchanged in June.

**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



<b>Institute for Supply Management Index</b> <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Jul-12	Jun-12	May-12	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Business Barometer</b>	<b>49.8</b>	49.7	53.5	51.0	52.3	51.4
<b>New Orders</b>	<b>48.0</b>	47.8	60.1	52.0	53.9	50.8
<b>Production</b>	<b>51.3</b>	51.0	55.6	52.6	55.4	52.5
<b>Inventories</b>	<b>49.0</b>	44.0	46.0	46.3	47.8	48.0
<b>Employment</b>	<b>52.0</b>	56.6	56.9	55.2	55.4	55.1
<b>Supplier Deliveries</b>	<b>48.7</b>	48.9	48.7	48.8	48.8	50.6
<b>Order Backlog (NSA)</b>	<b>43.0</b>	44.5	47.0	44.8	48.1	45.0
<b>Prices Paid (NSA)</b>	<b>39.5</b>	37.0	47.5	41.3	51.3	59.0
<b>New Export Orders</b>	<b>46.5</b>	47.5	53.5	49.2	53.3	54.0

Source: National Association of Purchasing Management