

June ISM Manufacturing Index

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- The ISM manufacturing index increased to 50.9 in June from 49.0 in May, beating the consensus expected 50.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in June. The new orders index rose to 51.9 from 48.8 and the production index jumped to 53.4 from 48.6. The supplier deliveries index increased to 50.0 from 48.7. The one negative exception was the employment index which declined to 48.7 from 50.1.
- The prices paid index increased to 52.5 in June from 49.5 in May.

Implications: The ISM index, a measure of manufacturing sentiment around the country, rebounded from last month’s drop, beat consensus expectations, and moved back into territory signaling expansion in the factory sector. The overall index rose to 50.9. The best news in today’s report was the gain in the new orders index to 51.9, suggesting faster growth ahead. According to the Institute for Supply Management, an index level of 50.2, which was the average for the second quarter, is consistent with real GDP growth of 2.5% annually. We think other data signal a real GDP growth rate very close to that figure. The weakest part of today’s report was for employment; that index declined to 48.7, suggesting another decline in manufacturing payrolls in June. Oddly, this is the second month in a row where the national ISM moved in the opposite direction as the Chicago PMI. Usually these two measures move in the same direction. The gap may be due to a transition in which sectors are performing the best. For example, furniture manufactures reported the strongest growth in June while transportation equipment makers were among the slowest growers. Sales for autos are already close to where they should be based on fundamentals (the driving-age population and scrappage), and we had been anticipating a transition by consumers toward slower growth in auto sales and faster growth in other sectors. On the inflation front, the prices paid index increased to 52.5 in June from 49.5 in May. Given loose monetary policy, we expect these inflation readings to remain above 50. In other news this morning, construction increased 0.5% in May, almost exactly what the consensus expected. The gain in May was due rising state & local construction (particularly transportation hubs and water supply) as well as home building; commercial construction declined in May (particularly manufacturing plants and communications facilities). Overall, today’s data are certainly no justification for euphoria, but aren’t a reason to panic either. What we have here is more data consistent with the Plow Horse economy.

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



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

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



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Jun-13	May-13	Apr-13	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	50.9	49.0	50.7	50.2	51.5	50.2
New Orders	51.9	48.8	52.3	51.0	52.6	49.6
Production	53.4	48.6	53.5	51.8	53.2	52.4
Inventories	50.5	49.0	46.5	48.7	49.7	44.0
Employment	48.7	50.1	50.2	49.7	51.6	55.7
Supplier Deliveries	50.0	48.7	50.9	49.9	50.7	49.5
Order Backlog (NSA)	46.5	48.0	53.0	49.2	50.2	44.5
Prices Paid (NSA)	52.5	49.5	50.0	50.7	54.1	37.0
New Export Orders	54.5	51.0	54.0	53.2	53.3	47.5

Source: National Association of Purchasing Management