

July ISM Manufacturing Index

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- The ISM manufacturing index increased to 55.4 in July from 50.9 in June, easily beating the consensus expected 52.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all higher in July and well above 50. The new orders index rose to 58.3 from 51.9 and the production index jumped to 65.0 from 53.4. The supplier deliveries index increased to 52.1 from 50.0 while the employment index increased to 54.4 from 48.7.
- The prices paid index declined to 49.0 in July from 52.5 in June.

Implications: A blowout positive number today for the ISM index, a measure of manufacturing sentiment around the country. The ISM came in at the highest level since June 2011, easily beating not only consensus expectations but the predictions from all of the 84 economics groups that made a forecast. In particular, the production index boomed in July, coming in at 65.0, the highest since May 2004. According to the Institute for Supply Management, an overall index level of 55.4 is consistent with real GDP growth of 4.1% annually. We doubt real GDP will grow that quickly, but it should be faster in Q3 than in the first half of the year. There was really not any part of the report today that showed weakness. Both the new orders index and employment index rose to very solid levels well above 50. On the inflation front, the prices paid index declined to 49.0 in July from 52.5 in June. Still no sign of inflation, but we don't expect this to last given loose monetary policy. In other good news this morning, new claims for unemployment insurance declined 19,000 to 326,000, a new low for the recovery, but probably below trend due to a lack of normal seasonal auto-plant retooling. Continuing claims declined 52,000 to 2.95 million. Plugging these figures into our employment models puts our final forecasts for tomorrow's report at +165,000 nonfarm payrolls, +169,000 private, with a steady 7.6% unemployment rate. Another report out this morning showed construction declined 0.6% in June, but rose 1% including upward revisions for April and May. The dip in June itself was due to a drop in both state & local government work plus commercial construction. A drop in new home construction was offset by a gain in home improvements. On net, the new construction figures leave yesterday's Q2 real GDP estimate at an unrevised 1.7%.

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>	Jul-13	Jun-13	May-13	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	55.4	50.9	49.0	51.8	51.9	50.5
New Orders	58.3	51.9	48.8	53.0	53.4	47.5
Production	65.0	53.4	48.6	55.7	55.1	53.3
Inventories	47.0	50.5	49.0	48.8	49.0	49.0
Employment	54.4	48.7	50.1	51.1	51.7	53.2
Supplier Deliveries	52.1	50.0	48.7	50.3	50.4	49.7
Order Backlog (NSA)	45.0	46.5	48.0	46.5	49.8	43.0
Prices Paid (NSA)	49.0	52.5	49.5	50.3	52.8	39.5
New Export Orders	53.5	54.5	51.0	53.0	53.8	46.5

Source: National Association of Purchasing Management