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June ISM Manufacturing Index

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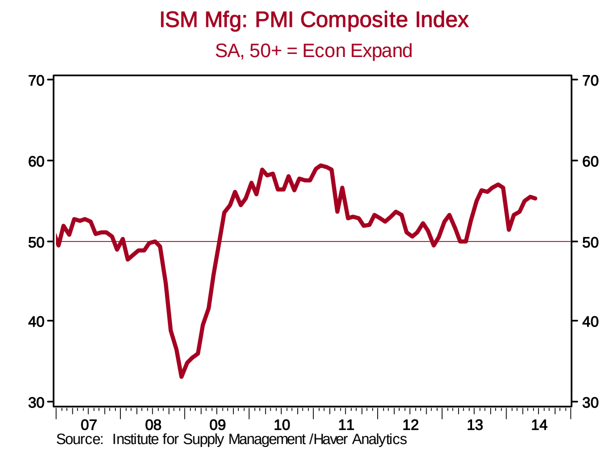
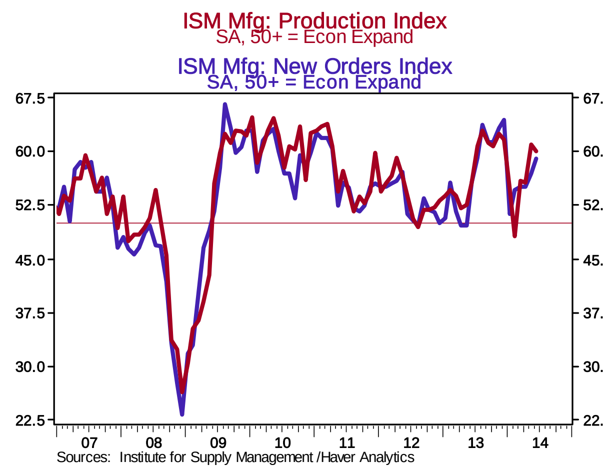
- The ISM manufacturing index ticked down to 55.3 in June from 55.4 in May. The consensus expected a gain to 55.9. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in June but all remain above 50, signaling growth. The supplier deliveries index declined to 51.9 from 53.2, while the production index dipped to 60.0 from 61.0. The new orders index rose to 58.9 from 56.9. The employment index was unchanged at 52.8.
- The prices paid index declined to 58.0 in June from 60.0 in May.





Implications: After four straight months of strong moves higher, the ISM Manufacturing index, a measure of factory sentiment around the country, dipped slightly to 55.3 in June. Despite the 0.1 point decline, today's reading represents the second highest level so far this year. While not quite back to the levels of late last year, the index has stood in expansion territory for thirteen consecutive months and we expect the index to show continued strength as companies ramp up production. The best news in today's report came in the new orders index, which rose to 58.9, the highest reading since the end of last year, and a sign that activity should continue to pick up in the months ahead. According to the Institute for Supply Management, an overall index level of 55.3 is consistent with real GDP growth of 4% annually. We don't expect a growth rate quite that fast for Q2, at least not yet, but do expect a sharp rebound to about a 3% growth rate. On the inflation front, the prices paid index fell to a still-elevated 58.0 in June from 60.0 in May. Along with broader measures of consumer and producer prices, inflation is starting to show signs of the loose monetary policy of the past several years. The employment index remained unchanged in June, but plugging today's data into our models, including the Intuit Small Business report, our forecast for Thursday's employment report are solid gains of 208,000 and 203,000 for nonfarm and private payrolls, respectively. In other news this morning, construction increased 0.1% in May. However, the gain in April was revised to a 0.8% increase from a previous report of 0.2%. This supports our forecast for better economic growth in Q2. For May itself, gains in commercial construction and government projects – particularly power plants, sewage, and water supply – offset a drop in single-family home building and home improvements. Don't worry about home building, though. It's volatile month-to-month but we expect further substantial gains in the year ahead.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Jun-14	May-14	Apr-14	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	**55.3**	55.4	54.9	55.2	54.0	52.5
New Orders	**58.9**	56.9	55.1	57.0	55.3	55.7
Production	**60.0**	61.0	55.7	58.9	55.9	55.7
Inventories	**53.0**	53.0	53.0	53.0	51.3	50.5
Employment	**52.8**	52.8	54.7	53.4	52.7	50.0
Supplier Deliveries	**51.9**	53.2	55.9	53.7	54.6	50.4
Order Backlog (NSA)	**48.0**	52.5	55.5	52.0	52.3	46.5
Prices Paid (NSA)	**58.0**	60.0	56.5	58.2	59.0	52.5
New Export Orders	**54.5**	56.5	57.0	56.0	55.3	54.5

Source: National Association of Purchasing Management