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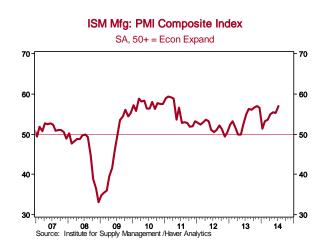
DATAWATCH

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July ISM Manufacturing Index

- The ISM manufacturing index increased to 57.1 in July from 55.3 in June, easily beating the consensus expected level of 56.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all higher in July and are all well above 50, signaling growth. The employment index rose to 58.2 from 52.8, while the new orders index increased to 63.4 from 58.9. The production index rose slightly to 61.2 from 60.0. The supplier deliveries index moved higher to 54.1 from 51.9.
- The prices paid index increased to 59.5 in July from 58.0 in June.

Implications: US factories are humming. The ISM Manufacturing index, which measures factory sentiment around the country, rose to 57.1 in July, the highest level in more than three years. The best news in today's report came from the new orders index, which rose to 63.4, 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 57.1 is consistent with real GDP growth of 4.6% annually. While yesterday's GDP report came in at a strong 4.0% for Q2, we don't expect the growth rate to remain quite that fast over the remainder of the year. On the inflation front, the prices paid index rose to 59.5 in July from 58.0 in June. 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 jumped to 58.2 in July, an eight month high and consistent with the gain of 28,000 manufacturing jobs reported in this morning's employment survey. In other news this morning, construction declined 1.8% in June (-0.6% including upward revisions to prior months). The decline in June itself was mostly due to a pullback in government projects (particularly paving roads). In the housing sector, a decline in single-family construction offset further gains in multi-family building. Don't worry about construction, though; it's volatile month-toBrian S. Wesbury – Chief Economist Robert Stein, CFA – Dep. Chief Economist Strider Elass – Economist





month and we expect gains in the year ahead. In addition, during economic expansions construction reports are often revised up in following months.

Institute for Supply Management Index	Jul-14	Jun-14	May-14	3-month	6-month	Year-ago
Seasonally Adjusted Unless Noted: 50+ = Econ Growth				moving avg	moving avg	level
Business Barometer	57.1	55.3	55.4	55.9	54.9	54.9
New Orders	63.4	58.9	56.9	59.7	57.3	59.1
Production	61.2	60.0	61.0	60.7	57.0	60.8
Inventories	48.5	53.0	53.0	51.5	52.1	47.0
Employment	58.2	52.8	52.8	54.6	53.7	55.5
Supplier Deliveries	54.1	51.9	53.2	53.1	54.6	52.0
Order Backlog (NSA)	49.5	48.0	52.5	50.0	52.5	45.0
Prices Paid (NSA)	59.5	58.0	60.0	59.2	58.8	49.0
New Export Orders	53.0	54.5	56.5	54.7	55.0	53.5

Source: National Association of Purchasing Management

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