

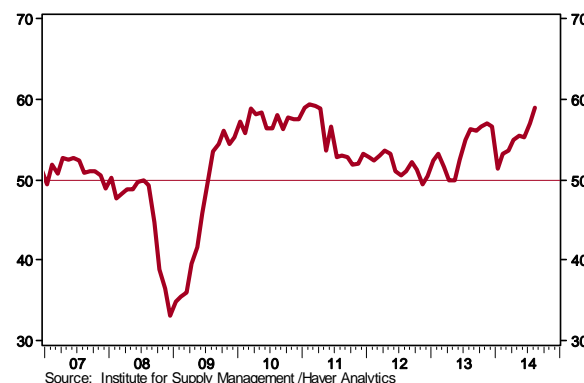
August ISM Manufacturing Index

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- The ISM manufacturing index surged to 59.0 in August from 57.1 in July, easily beating the consensus expected level of 57.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in August, but all remain well above 50, signaling growth. The new orders index rose to 66.7 from 63.4, while the production index increased to 64.5 from 61.2. The supplier deliveries index dipped slightly to 53.9 from 54.1. The employment index was little changed at 58.1 from 58.2 in July.
- The prices paid index declined to 58.0 in August from 59.5 in July.

Implications: A booming report from the manufacturing sector as the ISM Manufacturing index, which measures factory sentiment around the country, rose to 59.0 in August, the highest level in more than three years. The best news in today's report came from the new orders index, which rose to 66.7, the highest reading in more than a decade, and a sign that factory activity should continue to pick up in the months ahead. According to the Institute for Supply Management, an overall index level of 59.0 is consistent with real GDP growth of 5.2% annually. While last week's GDP report came in at a strong 4.2% for Q2, we don't expect the growth rate to remain quite that fast over the remainder of the year. The long-term link between the ISM report and real GDP growth has tended to over-estimate real GDP growth in the past several years. On the inflation front, the prices paid index fell to a still elevated 58.0 in August from 59.5 in July. Along with broader measures of consumer and producer prices, inflation is showing signs of overly loose monetary policy. The employment index was essentially unchanged at 58.1 in August, just off the three year high reading of 58.2 in July's report. With the data in today's release, we are currently forecasting a gain of about 25,000 manufacturing jobs for this Friday's employment survey. In other news today, construction increased 1.8% in July and 3.3% including upward revisions for May and June. The gain in July itself was led by state and local projects (like paving roads and building bridges). A large gain in commercial construction was led by power plants and manufacturing facilities. The upward revisions for May/June suggest real GDP will be revised up to a 4.4% annual growth rate in Q2 from a prior report of 4.2%.

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



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



Institute for Supply Management Index	Aug-14	Jul-14	Jun-14	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	59.0	57.1	55.3	57.1	55.9	56.3
New Orders	66.7	63.4	58.9	63.0	59.4	63.6
Production	64.5	61.2	60.0	61.9	59.7	63.0
Inventories	52.0	48.5	53.0	51.2	52.0	47.5
Employment	58.1	58.2	52.8	56.4	54.6	55.0
Supplier Deliveries	53.9	54.1	51.9	53.3	53.8	52.4
Order Backlog (NSA)	52.5	49.5	48.0	50.0	52.6	46.5
Prices Paid (NSA)	58.0	59.5	58.0	58.5	58.5	54.0
New Export Orders	55.0	53.0	54.5	54.2	55.3	55.5

Source: National Association of Purchasing Management