

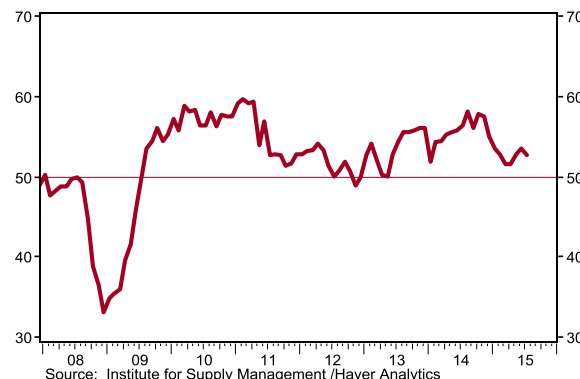
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July ISM Manufacturing Index

- The ISM manufacturing index declined to 52.7 in July, coming in below the consensus expected level of 53.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- Despite the decline in the overall index, the major measures of activity were mostly higher in July. The production index rose to 56.0 from 54.0, while the new orders index moved higher to 56.5 from 56.0. The supplier deliveries index ticked up to 48.9 from 48.8. The only major measure that fell was the employment index, which dropped to 52.7 from 55.5.
- The prices paid index declined to 44.0 in July from 49.5 in June.

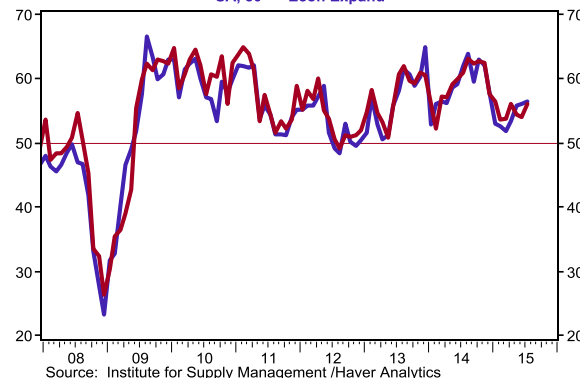
Implications: Today’s report from the ISM was accidentally released early this morning, but the early release may be the most exciting news surrounding today’s plow-horse report. It’s hard to draw any conclusions from the report, other than that the economy continues to grow at a moderate pace. The ISM manufacturing index fell short of consensus expectations in July, coming in at 52.7 in July, a decline from 53.5 in June. However, the overall index has now remained above 50 (levels higher than 50 signal expansion) for a 31st consecutive month. In addition, most of the major sub-indexes moved up in July. The most forward-looking index, new orders, rose for a fourth consecutive month and now stands at the highest level so far this year. The production index followed orders higher, jumping 2 points to 56.0, and also stands near highs for the year. In other words, the two key areas of the report focused on actual production looked good in July. With new orders continuing to rise, expect sustained strength in production in the months ahead. While the index remains below the peak of 58.1 seen in August 2014, we don’t believe this is anything to worry about. Remember that the economy was unusually strong in the summer of last year as it recovered from bad weather in the first quarter of 2014. The employment index fell in July to 52.7, representing continued growth in hiring, but at a slower pace than in recent months. This moderately slower pace of jobs growth comes in contrast to the strength in initial and continuing claims reports, which we believe represent a better picture of the overall trend in employment. On the inflation front, the prices paid index declined to 44.0 in July from 49.5 in June, as a drop in oil prices pushed down the costs of chemicals and raw materials. The prices paid index has now shown contraction in prices for nine consecutive months. Taken as a whole, this month’s ISM report, led by the gains in the new orders and production indexes, signals continued plow-horse growth in the months ahead. In other news this morning, construction increased a mere 0.1% in June. However, construction was revised up substantially for April and May. As a result, it now looks like real GDP growth for Q2 will be revised up to a 2.8% annual rate from the government’s report last week of 2.3%. The gain in June itself was led by government projects (mass transit, sports facilities, paving roads, water supply) as well as private multi-family home construction.

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	Jul-15	Jun-15	May-15	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	52.7	53.5	52.8	53.0	52.5	56.4
New Orders	56.5	56.0	55.8	56.1	54.4	62.0
Production	56.0	54.0	54.5	54.8	54.7	60.9
Inventories	49.5	53.0	51.5	51.3	51.3	48.5
Employment	52.7	55.5	51.7	53.3	51.6	56.3
Supplier Deliveries	48.9	48.8	50.7	49.5	50.6	54.3
Order Backlog (NSA)	42.5	47.0	53.5	47.7	48.9	49.5
Prices Paid (NSA)	44.0	49.5	49.5	47.7	42.9	59.5
New Export Orders	48.0	49.5	50.0	49.2	49.2	53.0

Source: National Association of Purchasing Management