

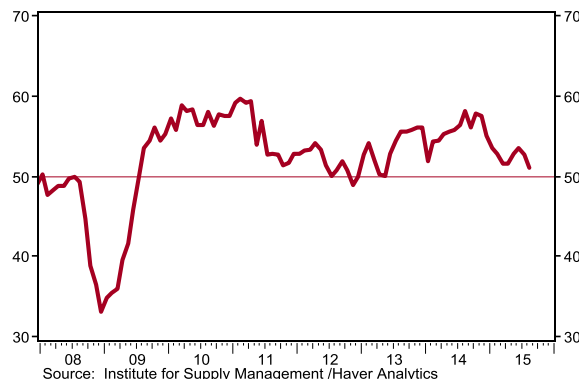
August ISM Manufacturing Index

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- The ISM manufacturing index declined to 51.1 in August, coming in below the consensus expected level of 52.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in August, but all stand above 50. The new orders index fell to 51.7 from 56.5, while the production index moved lower to 53.6 from 56.0. The employment index slipped to 51.2 from 52.7. The supplier deliveries index rose to 50.7 from 48.9.
- The prices paid index declined to 39.0 in August from 44.0 in July.

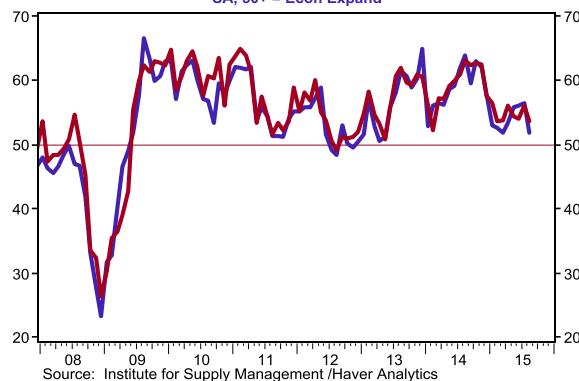
Implications: First things first. Yes, today’s report from the ISM showed the lowest reading for the headline index going back to 2013, but it is important to remember that the index measures the *pace* of expansion and contraction. Levels above 50 represent expansion, so while August’s reading of 51.1 is lower than July’s reading of 52.7, that does not mean that activity has declined, but that it continues to expand at a slightly slower pace than in recent months. It’s hard to draw many conclusions from the report, other than that the economy continues to grow at a moderate pace. The overall index has now remained above 50 (levels higher than 50 signal expansion) for 32 consecutive months. In addition, each of the major measures of activity showed expansion in August. The new orders index, the most forward looking measure, declined to 51.7 in August from 56.5 in July. This measure accelerated for each of the previous four months, and a temporary slowdown in the pace of growth is nothing to worry about. The production index followed new orders lower, declining to 53.6 from 56.0. In other words, the two key areas of the report focused on actual production took a breather in August, but still show signs of continued growth. With new orders continuing to expand, expect sustained strength in production in the months ahead. While the overall 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 August to 51.2, representing continued growth in hiring, but at a slower pace than in recent months. Combined with recent data on initial and continuing claims, we estimate that jobs expanded by 196,000 in August. On the inflation front, the prices paid index declined to 39.0 in August from 44.0 in July, as falling prices for crude oil and raw metals helped push prices lower for fourteen of the eighteen industries reporting. The prices paid index has now shown contraction in prices for ten consecutive months. Taken as a whole, this month’s ISM report, with modest expansion across the major measures of activity, signals continued plow-horse growth in the months ahead. In other news this morning, construction increased 0.7% in July, while construction was also revised up substantially for June. The gain in July was led by private single family home construction as well as manufacturing facilities.

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>	Aug-15	Jul-15	Jun-15	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	51.1	52.7	53.5	52.4	52.2	58.1
New Orders	51.7	56.5	56.0	54.7	54.2	63.9
Production	53.6	56.0	54.0	54.5	54.7	63.1
Inventories	48.5	49.5	53.0	50.3	50.6	52.0
Employment	51.2	52.7	55.5	53.1	51.6	57.4
Supplier Deliveries	50.7	48.9	48.8	49.5	50.0	54.2
Order Backlog (NSA)	46.5	42.5	47.0	45.3	48.1	52.5
Prices Paid (NSA)	39.0	44.0	49.5	44.2	43.6	58.0
New Export Orders	46.5	48.0	49.5	48.0	48.8	55.0

Source: National Association of Purchasing Management