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June ISM Manufacturing Index

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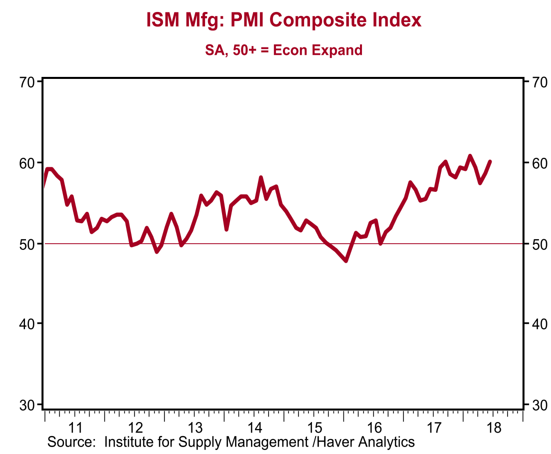
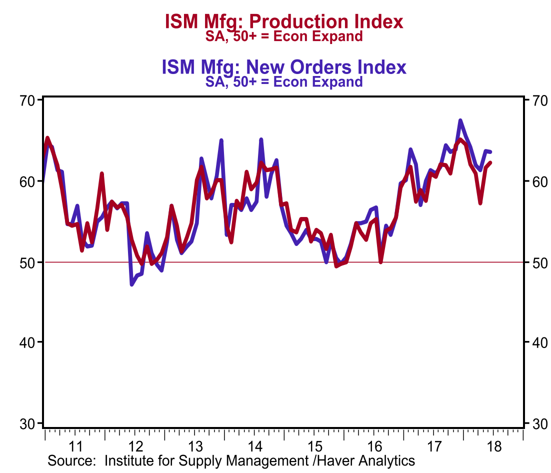
- The ISM Manufacturing Index rose to 60.2 in June, beating the consensus expected 58.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in June, but all stand comfortably above 50, signaling growth. The supplier deliveries index jumped to 68.2 from 62.0 in May, while the production index rose to 62.3 from 61.5. The employment index declined to 56.0 from 56.3, and the new orders index moved lower to 63.5 from 63.7 in May.
- The prices paid index declined to 76.8 in June from 79.5 in May.





Implications: The first half of 2018 is in the books, and what a start to the year it was for the manufacturing sector. Through June, the ISM manufacturing index has averaged a very respectable reading of 59.2, the best first-half average since 2004. And all signs suggest the healthy pace of growth will continue in the months ahead. Growth in June was broad based, with seventeen of eighteen industries reporting expansion (no industries reported contraction). A look at comments from survey respondents shows expanding business strength as economic growth increases demand across industries. The two most forward-looking indices - new orders and production – both stand at robust levels in the 60s (remember, levels above 50 signal expansion). In fact, the new orders index has seen readings of 60 or higher for fourteen consecutive months, the longest stretch above 60 going all the way back the early 1970s. So while you hear the talking heads on TV bemoaning uncertainty created by trade tariffs, we think corporate actions are speaking louder than words. While the employment index slipped to 56.0 from 56.3 in May, that's in line with expectations that manufacturing payrolls expanded by around 15,000 to 20,000 in June. And survey respondents suggest employment would be higher but for difficulties in finding both skilled and unskilled labor to fill positions. Prices, meanwhile, remained elevated in June with an index reading of 76.8. A total of thirty-one commodities were reported up in price, while none showed declines. Yet another sign (along with consumer prices, producer prices, and the Fed's preferred PCE price index) that inflation continues to pick up pace as economic growth accelerates, and a signal to the Fed that a total of four rate hikes in 2018 are not just appropriate, but warranted. It's hard to find something to dislike in today's report. As expected, the tax cuts and regulatory rollbacks have boosted activity for both consumers and companies. In other news this morning, construction spending rose 0.4% in May (-0.1% including revisions to prior months). For May itself, a pickup in home building and office projects more than offset a decline in construction in the manufacturing sector.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Jun-18	May-18	Apr-18	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	**60.2**	58.7	57.3	58.7	59.2	56.7
New Orders	**63.5**	63.7	61.2	62.8	63.3	61.3
Production	**62.3**	61.5	57.2	60.3	61.4	60.9
Inventories	**50.8**	50.2	52.9	51.3	53.1	49.0
Employment	**56.0**	56.3	54.2	55.5	56.3	56.3
Supplier Deliveries	**68.2**	62.0	61.1	63.8	62.0	55.7
Order Backlog (NSA)	**60.1**	63.5	62.0	61.9	60.2	56.5
Prices Paid (NSA)	**76.8**	79.5	79.3	78.5	76.8	53.0
New Export Orders	**56.3**	55.6	57.7	56.5	58.5	58.2

Source: National Association of Purchasing Management