

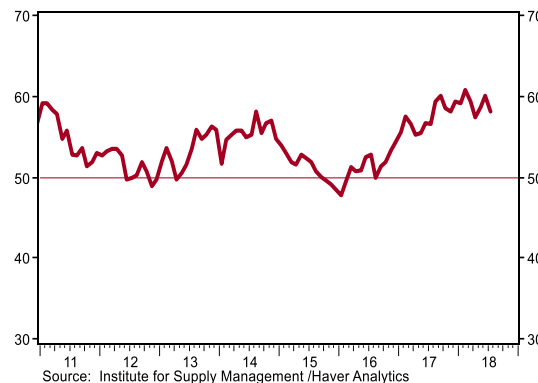
July ISM Manufacturing Index

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- The ISM Manufacturing Index declined to 58.1 in July, lagging the consensus expected 59.4. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in July, but all stand comfortably above 50, signaling growth. The supplier deliveries index fell to 62.1 from 68.2 in June, while the production index declined to 58.5 from 62.3. The new orders index moved lower to 60.2 from 63.5. The employment index rose to 56.5 from 56.0 in June.
- The prices paid index declined to 73.2 in July from 76.8 in June.

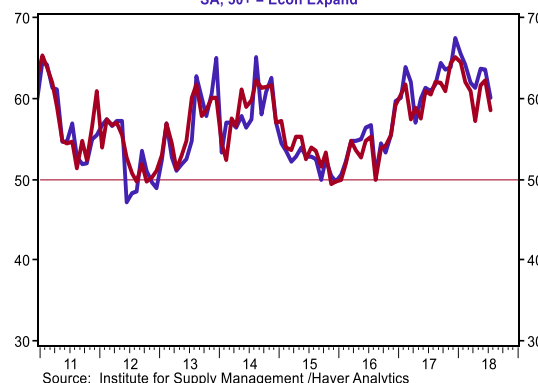
Implications: Despite all the fear-mongering about “trade wars,” the manufacturing sector continued a broad-based expansion in July. And while July saw a modest drop in the ISM index, all the major sub-indices remain well in expansion territory, and growth looks set to continue for the foreseeable future. Seventeen of eighteen industries reported expansion (primary metals reported contraction). The two most forward-looking indices – new orders and production – both stand at robust levels at or near 60 (remember, levels above 50 signal expansion). In fact, the new orders index has seen readings of 60 or higher for fifteen consecutive months, the longest stretch above 60 going all the way back the early 1970s. Some survey respondents reported concerns about tariff impacts on business activity and prices in the months ahead, but it doesn’t appear to be having much impact on activity to-date. And the customer inventories sub-index (which measures if inventory levels are appropriate for the current environment) hit 39.4 in July, the lowest reading going back to late 2010, while delivery times continue to rise. In other words, all the stresses in the manufacturing sector point to even more investment, hiring and production in the coming months. In the meantime, expect higher prices. Although the prices paid index moved down to 73.2 in July from 76.8 in June, a reading well above 50 signals continued inflation, as twenty-five commodities showed higher prices and just one – copper – showed a decline. Just yesterday, the Chicago Business Barometer report specifically mentioned inflation as a problem. With inflation already above the Fed’s 2% target (see yesterday’s report on the PCE index), today’s data should serve to further cement two more rate hikes before year-end and perhaps strengthen Fed language about the pace of hikes in 2019. On the jobs front, the employment index rose to 56.5 from 56.0 in June, in line with expectations that manufacturing payrolls expanded by around 20,000 in June. And survey respondents continue to report that employment would be higher but for difficulties in finding qualified labor to fill positions. In other employment news this morning, the ADP index reported private payrolls rose 219,000 in July. Plugging all of this labor market data into our model suggests Friday’s employment report will show nonfarm payrolls rose a healthy 186,000 in July. Also out this morning, construction spending declined 1.1% in June. But April and May construction spending was also revised higher from prior estimates, so spending in June represents a 0.6% increase from the initially reported May data. In other words, activity in both the manufacturing and construction sectors continue to boom.

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>	Jul-18	Jun-18	May-18	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Business Barometer	58.1	60.2	58.7	59.0	59.1	56.5
New Orders	60.2	63.5	63.7	62.5	62.5	61.0
Production	58.5	62.3	61.5	60.8	60.4	60.4
Inventories	53.3	50.8	50.2	51.4	53.2	49.2
Employment	56.5	56.0	56.3	56.3	56.7	55.8
Supplier Deliveries	62.1	68.2	62.0	64.1	62.5	56.0
Order Backlog (NSA)	54.7	60.1	63.5	59.4	60.0	54.3
Prices Paid (NSA)	73.2	76.8	79.5	76.5	76.9	61.7
New Export Orders	55.3	56.3	55.6	55.7	57.7	57.2

Source: National Association of Purchasing Management