

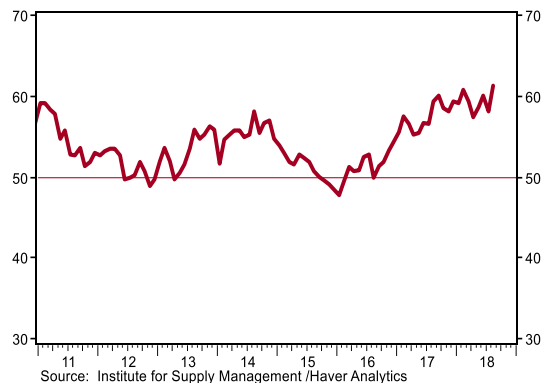
# August ISM Manufacturing Index

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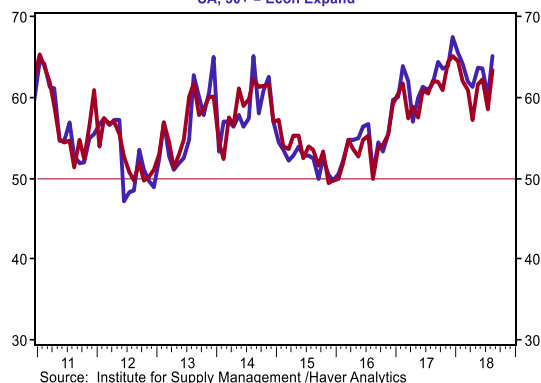
- The ISM Manufacturing Index rose to 61.3 in August, handily beating the consensus expected 57.6. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all higher in August, and all stand comfortably above 50, signaling growth. The new orders index jumped to 65.1 from 60.2 in July, while the production index rose to 63.3 from 58.5. The supplier deliveries index increased to 64.5 from 62.1, and the employment index improved to 58.5 from 56.5 in July.
- The prices paid index declined to 72.1 in August from 73.2 in July.

**Implications:** Be careful not to burn yourself on today’s scorching-hot reading from the ISM Manufacturing index, which hit the highest level going all the way back to 2004. While we jest (sort of), today’s report on activity in the manufacturing sector easily exceeded even the most optimistic forecasts and provides little – if anything – for the pessimists to latch on to. And beyond the blowout numbers, growth was broad-based, with sixteen of eighteen industries reporting expansion (only primary metals and wood products both reported contraction). The best news in today’s report was that the two most forward-looking indices – new orders and production – led the move higher in August, and both stand at robust levels above 60 (remember, levels above 50 signal expansion). That said, the strength in orders isn’t new, with the new orders index having now shown a reading of 60+ for sixteen consecutive months, the longest stretch above 60 going all the way back the early 1970s. Some survey respondents continue to report uncertainty related to trade tariffs, but that issue has yet to show much negative impact on activity to-date. And the customer inventories sub-index (which measures if inventory levels are appropriate for the current environment) rose modestly to 41.0 in August, remaining near the lowest level going back to late 2010. Meanwhile 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 72.1 in August from 73.2 in July, a reading well above 50 signals continued inflation, as twenty commodities showed higher prices and just three – copper, corn, and aluminum – showed declines. With inflation already above the Fed’s 2% target, today’s data should serve as yet another signal the Fed could strengthen language (or the “dot plot”) about the pace of hikes in 2019 when they meet later this month. On the jobs front, the employment index rose to 58.5 in August from 56.5 in July. And survey respondents continue to report that employment would be higher but for difficulties in finding qualified workers to fill positions. Despite the positive data from the employment front, August payrolls are a [notoriously fickle beast](#), with the initial reading typically coming in below expectations but seeing upward revisions in later months. We expect this Friday’s report will follow that trend. In other news this morning, construction spending rose 0.1% in July. Construction spending is up 5.8% in the past year, an acceleration from the pace over the same periods ending in 2016 and 2017. In other words, both the construction and manufacturing sectors are contributing to the Kevlar economy.

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-18	Jul-18	Jun-18	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Business Barometer</b>	<b>61.3</b>	58.1	60.2	59.9	59.2	59.3
<b>New Orders</b>	<b>65.1</b>	60.2	63.5	62.9	62.6	61.8
<b>Production</b>	<b>63.3</b>	58.5	62.3	61.4	60.6	62.0
<b>Inventories</b>	<b>55.4</b>	53.3	50.8	53.2	53.0	55.7
<b>Employment</b>	<b>58.5</b>	56.5	56.0	57.0	56.5	59.8
<b>Supplier Deliveries</b>	<b>64.5</b>	62.1	68.2	64.9	63.1	57.4
<b>Order Backlog (NSA)</b>	<b>57.5</b>	54.7	60.1	57.4	59.6	56.5
<b>Prices Paid (NSA)</b>	<b>72.1</b>	73.2	76.8	74.0	76.5	61.7
<b>New Export Orders</b>	<b>55.2</b>	55.3	56.3	55.6	56.5	56.1

Source: National Association of Purchasing Management