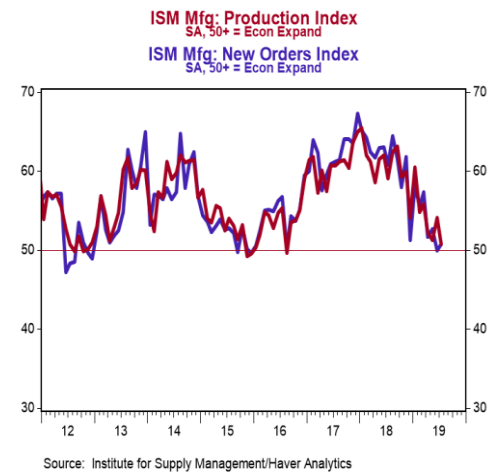
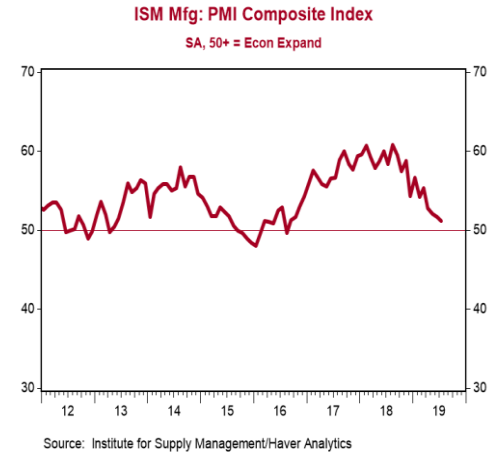


July ISM Manufacturing Index

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist

- The ISM Manufacturing Index declined to 51.2 in July, lagging the consensus expected 52.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in July, but all stand above 50, signaling growth. The production index fell to 50.8 from 54.1 in June, while the employment index declined to 51.7 from 54.5. The new orders index rose to 50.8 from 50.0 and the supplier deliveries index increased to 53.3 from 50.7 in June.
- The prices paid index declined to 45.1 in July from 47.9 in June.

Implications: Today’s report on manufacturing activity leaves something to be desired but continues to show the sector is expanding overall. Nine of eighteen industries reported growth in July, while the remaining nine reported contraction. At 51.2 the headline reading for the report marked the lowest level since mid-2016. Some pundits are likely to clutch today’s report and claim justification for yesterday’s announced rate cut. We don’t buy it. We’ve seen similar such slowdowns in ISM readings in 2012 and again in 2015-2016, when the ISM report actually fell below 50 before turning higher once again. We expect a return to faster growth this time as well. Why? First, while China trade tensions continue to pepper respondents’ comments, they are now noting that supply chain adjustments are tempering growth as they move manufacturing out of China. This readjustment process is a short-term factor that could keep growth subdued in the months ahead, but ultimately puts increased pressure on China to finalize a trade deal. And remember, the trade dispute with China - and the negative sentiment surrounding it - is likely pushing down the ISM reading (remember, the ISM indices are surveys, and apt to reflect fears as well as facts.) That being said, manufacturing has slowed from the faster pace of growth seen in 2018. A look at the details of today’s report shows a modest uptick in the new orders growth that was offset by a decline in the growth rate of production. Sure, we would prefer to see a rising pace of growth in both orders and production, but the July slowdown isn’t cause to sound alarm bells. The ISM manufacturing index has now shown expansionary readings for 35 consecutive months – that’s nearly three straight years of constant growth. There will be ebbs and flows along the way, that’s normal. On the labor front, the employment index declined to 51.7 from 54.5 in June. Pairing this with other data on the employment market suggests manufacturing jobs rose by around 5,000 in July after the 17,000 jobs added in June. Finally, on the inflation front, the prices paid index fell to 45.1 in July, led lower by metals (namely copper, steel, and aluminum). From our reading - pairing today’s data with other readings on the economy - there is no sign of a “looming recession.” We expect the manufacturing sector (and the economy overall) to continue higher in the months ahead. In employment news this morning, initial jobless claims rose 8,000 last week to 215,000. Continuing claims increased 22,000 to 1.699 million. Yesterday, the ADP employment report showed private payroll gains of 156,000 in July. Plugging these figures into our model suggests nonfarm payrolls in July were up 163,000. In other news this morning, construction spending declined 1.3% in June (-0.5% including upward revisions to prior months). A slowdown in government work on highways and streets and educational facilities was partially offset by a pickup in commercial projects from both the private and public sectors. On the housing front, pending home sales, which are contracts on existing homes, rose 2.8% in June, suggesting an increase in existing home closings in July.



Institute for Supply Management Index	Jul-19	Jun-19	May-19	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	51.2	51.7	52.1	51.7	52.9	58.4
New Orders	50.8	50.0	52.7	51.2	53.0	60.8
Production	50.8	54.1	51.3	52.1	53.2	59.1
Inventories	49.5	49.1	50.9	49.8	51.3	53.3
Employment	51.7	54.5	53.7	53.3	53.7	56.8
Supplier Deliveries	53.3	50.7	52.0	52.0	53.3	62.1
Order Backlog (NSA)	43.1	47.4	47.2	45.9	49.1	54.7
Prices Paid (NSA)	45.1	47.9	53.2	48.7	50.0	73.2
New Export Orders	48.1	50.5	51.0	49.9	50.6	55.3

Source: National Association of Purchasing Management