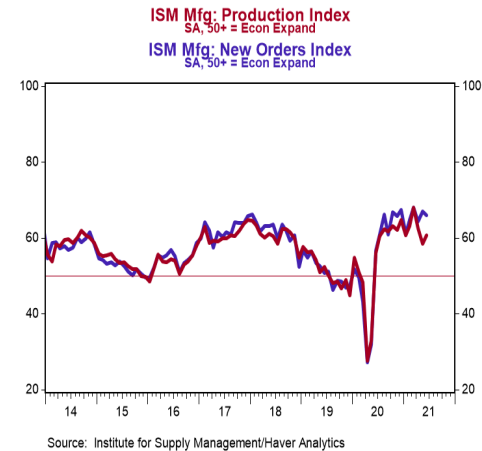
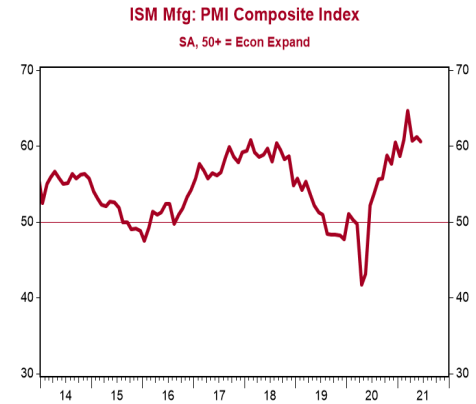


Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Ellass – Senior Economist
Bryce Gill – Economist

June ISM Manufacturing Index

- The ISM Manufacturing Index fell to 60.6 in June, just below the consensus expected 60.9. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in June. The production index rose to 60.8 from 58.5 in May, while the new orders index declined to 66.0 from 67.0. The employment index fell to 49.9 from 50.9, and the supplier deliveries index fell to 75.1 from 78.8 in May.
- The prices paid index rose to 92.1 in June from 88.0 in May.

Implications: The manufacturing sector continued to expand rapidly in June, though at a slightly slower pace than in May. Gains were broad-based, with seventeen of eighteen industries reporting growth. Although measures of both current production and new orders are both above 60, indicating very strong demand for manufactured goods, it's clear that the factory sector would be expanding even more rapidly if it weren't for a slew of factors holding back output. Respondent comments were generally positive but accompanied by widespread worries about disrupted supply chains, rapidly rising costs for inputs, shortages of raw materials across the board, and employers having trouble filling open positions. These issues have all come together to keep production from rising quickly enough to meet the explosion of demand as the US economy reopens. The good news is that supply chain problems seem to be easing in certain areas. For example, the index for supplier deliveries fell from its May level which was the highest since the late 1970s, though this measure still remains very elevated historically. Manufacturers also started to make progress on the huge backlog of orders, with the index for that measure falling from record highs as well. That said, in other crucial areas headwinds seem to be increasing. The ongoing race to get the needed inputs to fill these orders caused the prices paid index to jump to 92.1 in June, the highest reading since 1979 when the Iranian Revolution sent oil prices soaring. All eighteen industries reported increased prices for raw materials in June. Only one commodity (acetone) was reported as lower in price while fifty-three were reported up. Finally, the employment index moved into contraction territory in June, falling to 49.9 as difficulty finding workers and ongoing absenteeism issues remained big problems. Notably, job openings in the manufacturing sector are now twice what they were pre-pandemic, signaling that labor supply issues are holding back output. In other employment news this morning, initial jobless claims fell 51,000 last week to 364,000, a new pandemic low. Meanwhile continuing claims rose 56,000 to 3.469 million. We also got the ADP employment report yesterday which showed 692,000 private-sector jobs gained in June, beating the consensus expected 600,000. We are now forecasting that nonfarm payrolls rose 720,000 in June. Construction spending data out this morning showed a decline of 0.3% in May, below the consensus expected gain of 0.4%. The decline in May was largely due to a big drop in manufacturing and power projects, which more than offset increases in home building. In other recent news, home prices continued to soar in April. The national Case-Shiller index rose 1.6% and is up 14.6% versus a year ago, both the fastest increases since the late 1970s. Price gains were led by Phoenix, San Diego, and Seattle, with the slowest price gains in Chicago and Minneapolis. The FHFA index, which tracks homes financed by conforming mortgages, rose 1.8% in April and is up 15.7% in the past year, both records, as well. Finally, pending home sales, which are contracts on existing homes, surged 8.0% in May after falling 4.4% in April, suggesting a gain in existing home sales in June.



Source: Institute for Supply Management/Haver Analytics

Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Jun-21	May-21	Apr-21	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	60.6	61.2	60.7	60.8	61.1	52.2
New Orders	66.0	67.0	64.3	65.8	65.2	56.7
Production	60.8	58.5	62.5	60.6	62.3	56.0
Inventories	51.1	50.8	46.5	49.5	50.0	50.2
Employment	49.9	50.9	55.1	52.0	53.8	41.1
Supplier Deliveries	75.1	78.8	75.0	76.3	74.3	57.0
Order Backlog (NSA)	64.5	70.6	68.2	67.8	65.8	45.3
Prices Paid (NSA)	92.1	88.0	89.6	89.9	87.2	51.3
New Export Orders	56.2	55.4	54.9	55.5	55.5	47.6

Source: National Association of Purchasing Management