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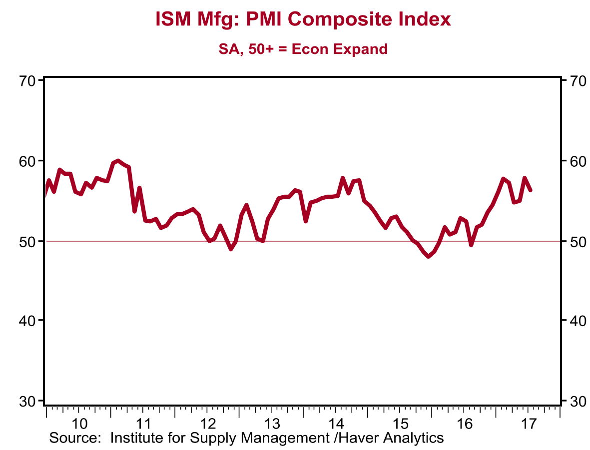
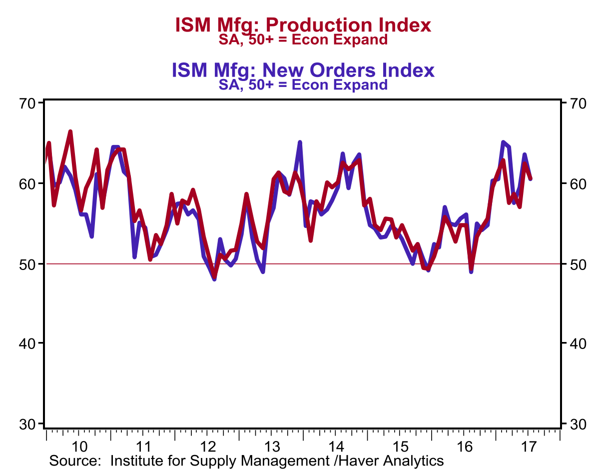
July ISM Manufacturing Index

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

- The ISM Manufacturing Index declined to 56.3 in July, coming in slightly below the consensus expected 56.4. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all lower in July, but all stand comfortably above 50, signaling growth. The new orders index fell to 60.4 from 63.5 in June, while the employment index declined to 55.2 from 57.2. The production index moved lower to 60.6 from 62.4, and the supplier deliveries index slipped to 55.4 from 57.0 in June.
- The prices paid index rose to 62.0 in July from 55.0 in June.





Implications: Strength in the manufacturing sector continued in July, coming off June's multi-year high reading from the ISM. Despite a slowdown in the pace of growth seen in June, the July reading of 56.3 remains well above the average reading of 53.2 over the past five years. Moreover, growth continues to remain broad based, with fifteen of eighteen industries reporting growth, while just three reported decline. A look at the major measures of activity shows expansion continued across the board, with all measures remaining above 50 in July. The two most forward looking indices - new orders and production – showed a slower pace of growth than in June, but both continue to show strength with readings above 60. Given healthy growth in orders, expect production activity to also remain strong in the coming months. And with the consistent strength in readings from the ISM report, we expect orders and shipments of durable goods to also show growth over the coming months, though that data is more volatile on a month-to-month basis. On the jobs front, the employment index declined to 55.2 in July. But it's important to remember that manufacturing remains a small portion of total employment. For a better picture of labor market health, we tend to focus on broader signals (initial claims, earnings growth, and consumer spending) which have shown constant strength in recent years despite modest (and volatile) growth in manufacturing employment. Our forecast may change with data still to come before Friday's jobs report, but we are currently forecasting 174,000 jobs added in July. On the inflation front, the prices paid index jumped to 62.0 in July from 55.0 in June, with fifteen commodities up in price while just two showed decline. Prices continue to rise at a modest pace, and these rising prices at the manufacturing stage of production should flow through to consumer price inflation over the coming months, keeping the Fed on pace for normalization of the balance sheet and one more rate hike to finish out 2017. Construction data, also released this morning, showed spending declined 1.3% in June. A slowdown in spending on highways & streets, education projects, and residential construction led the declines.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Jul-17	Jun-17	May-17	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Business Barometer	**56.3**	57.8	54.9	56.3	56.5	52.3
New Orders	**60.4**	63.5	59.5	61.1	61.8	56.1
Production	**60.6**	62.4	57.1	60.0	59.9	54.8
Inventories	**50.0**	49.0	51.5	50.2	50.3	49.5
Employment	**55.2**	57.2	53.5	55.3	55.2	49.3
Supplier Deliveries	**55.4**	57.0	53.1	55.2	55.2	51.8
Order Backlog *(NSA)*	**55.0**	57.0	55.0	55.7	56.4	48.0
Prices Paid *(NSA)*	**62.0**	55.0	60.5	59.2	64.1	55.0
New Export Orders	**57.5**	59.5	57.5	58.2	58.0	52.5

Source: National Association of Purchasing Management