

# August ISM Manufacturing Index

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- The ISM manufacturing index increased to 55.7 in August from 55.4 in July, easily beating the consensus expected 54.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in August but all remain well above 50. The new orders index rose to 63.2 from 58.3 and the supplier deliveries index increased to 52.3 from 52.1. The production index declined to 62.4 from 65.0 while the employment index slipped to 53.3 from 54.4.
- The prices paid index rose to 54.0 in August from 49.0 in July.

**Implications:** A surprisingly strong report today for the ISM index, a measure of manufacturing sentiment around the country. The ISM came in at the highest level since June 2011, easily beating consensus expectations. In particular, the new orders index boomed in August, coming in at 63.2, the highest since April 2011. According to the Institute for Supply Management, an overall index level of 55.7 is consistent with real GDP growth of 4.2% annually. We don't expect real GDP will grow anywhere near that pace in Q3, probably more like a 1% to 1.5% rate instead, but we do expect that by late this year growth will pick up noticeably from the roughly 2% trend over the past few years. Although the production index declined to 62.4 for August, it remains near its highest levels since early 2011. The employment index fell to 53.3 but this is no surprise and is consistent with the plow horse improvement we have been getting out of the labor market over the past few years. On the inflation front, the prices paid index rose to 54.0 in August from 49.0 in July. Still, little sign of inflation, but we don't expect this to last given loose monetary policy. In other news this morning, construction increased 0.6% in July (+1.9% including upward revisions for prior months). The gain in July was led by commercial construction, particularly manufacturing facilities, hotels, and malls. Apparently, companies think consumer spending is going to accelerate. The upward revisions for prior months suggest real GDP grew at 2.7% annual rate in Q2, not the 2.5% reported last week.

**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	Aug-13	Jul-13	Jun-13	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
<b>Business Barometer</b>	<b>55.7</b>	55.4	50.9	54.0	52.2	50.7
<i>New Orders</i>	<b>63.2</b>	58.3	51.9	57.8	54.3	48.9
<i>Production</i>	<b>62.4</b>	65.0	53.4	60.3	55.9	48.9
<i>Inventories</i>	<b>47.5</b>	47.0	50.5	48.3	48.3	53.0
<i>Employment</i>	<b>53.3</b>	54.4	48.7	52.1	51.8	52.6
<i>Supplier Deliveries</i>	<b>52.3</b>	52.1	50.0	51.5	50.6	50.2
<i>Order Backlog (NSA)</i>	<b>46.5</b>	45.0	46.5	46.0	48.3	42.5
<i>Prices Paid (NSA)</i>	<b>54.0</b>	49.0	52.5	51.8	51.6	54.0
<i>New Export Orders</i>	<b>55.5</b>	53.5	54.5	54.5	54.1	47.0

Source: National Association of Purchasing Management