First Trust DATAWATCH

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September ISM Manufacturing Index

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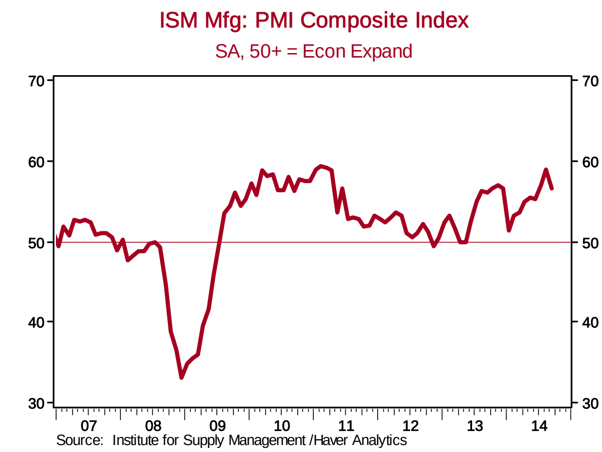
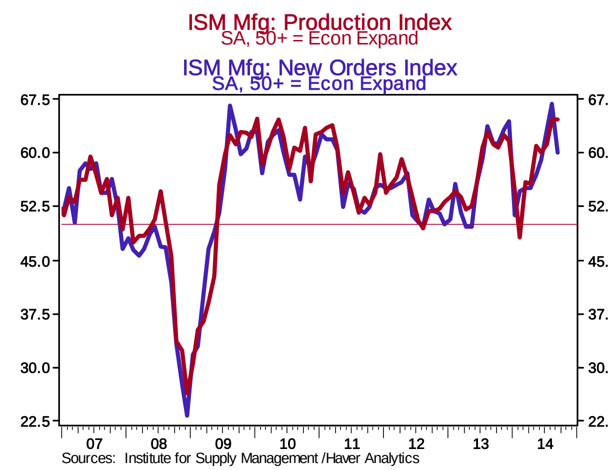
- The ISM manufacturing index declined to 56.6 in September from 59.0 in August, coming in below the consensus expected level of 58.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were mixed in September, but all remain above 50, signaling growth. The new orders index declined to 60.0 from 66.7, while the employment index fell to 54.6 from 58.1. The supplier deliveries index dipped to 52.2 from 53.9. The production index increased slightly to 64.6 from 64.5 in August.

- The prices paid index rose to 59.5 in September from 58.0 in August.





Implications: The ISM index says the manufacturing sector was still growing at a robust rate in September, just not quite as fast as in August. The index, which measures factory sentiment around the U.S., came off its highest reading in three years to a still healthy 56.6 in September. Zigs and zags are to be expected and no one should see the report as a sign of economic weakness. Both the three and six month averages for the index are the highest in more than three years. According to the Institute for Supply Management, an overall index level of 56.6 is consistent with real GDP growth of 4.4% annually. While last week's GDP report came in at a strong 4.6% for Q2, the ISM report has tended to over-estimate real GDP growth in the past several years and we're projecting growth of around 3% for the rest of the year. On the inflation front, the prices paid index rose to 59.5 in September from 58.0 in August, a sign of overly loose monetary policy. In other news this morning, the ADP index, which measures private-sector payrolls, increased 213,000 in September. Plugging this into our models suggests an increase of 225,000 in both nonfarm and private payrolls in September, although this forecast may change slightly when we get jobless claims data tomorrow morning. In still other news, construction declined 0.8% in August and dropped 2.1% including downward revisions for prior months. The decline in August was led by power plants, home improvements (although new home construction was up), shopping centers, and classrooms at public colleges. On the housing front, the national Case-Shiller index, which measures home prices, increased 0.2% in July and is up 5.6% from a year ago. In the past year, price gains have been led by Las Vegas, Miami, and San Francisco. Prices should continue to rise in the year ahead, but not as fast as in the past two years. In other housing news earlier this week, pending home sales, which are contracts on existing homes, declined 1% in August after a 3.2% gain in July. Our model suggests existing home sales, which are counted at closing, should be up 2% in September to 5.15 million, which would be the fastest pace in a year. Overall, recent data show neither an economic boom or an impending recession, just more Plow Horse.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Sep-14	Aug-14	Jul-14	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	**56.6**	59.0	57.1	57.6	56.4	56.0
New Orders	**60.0**	66.7	63.4	63.4	60.2	61.3
Production	**64.6**	64.5	61.2	63.4	61.2	61.2
Inventories	**51.5**	52.0	48.5	50.7	51.8	50.0
Employment	**54.6**	58.1	58.2	57.0	55.2	54.8
Supplier Deliveries	**52.2**	53.9	54.1	53.4	53.5	52.7
Order Backlog (NSA)	**47.0**	52.5	49.5	49.7	50.8	49.5
Prices Paid (NSA)	**59.5**	58.0	59.5	59.0	58.6	56.5
New Export Orders	**53.5**	55.0	53.0	53.8	54.9	52.0

Source: National Association of Purchasing Management

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