

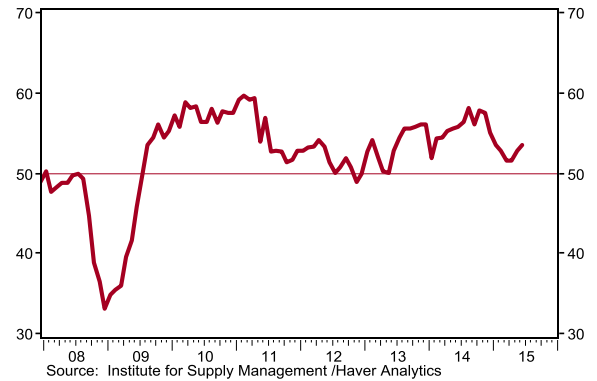
# June ISM Manufacturing Index

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

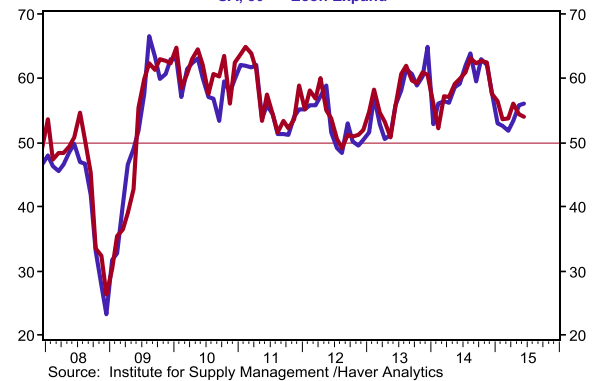
- The ISM manufacturing index rose to 53.5 in June, coming in above the consensus expected level of 53.2. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in June. The employment index jumped to 55.5 from 51.7, while the new orders index moved higher to 56.0 from 55.8. The production index slipped to 54.0 from 54.5, and the supplier deliveries index fell to 48.8 from 50.7.
- The prices paid index was unchanged in June, remaining at 49.5.

**Implications:** A slumping oil and gas industry couldn't hold back manufacturing activity in June, as the ISM manufacturing index, which measures factory sentiment around the country, beat consensus estimates to tie the highest reading of 2015. The index has now remained above 50 (levels higher than 50 signal expansion) for a 30th consecutive month. In addition, the most forward-looking index, new orders, rose for a third consecutive month and now stands at the highest level so far this year. The production index fell slightly to a still robust 54.0 in June, showing continued solid gains in output. With new orders continuing to rise, expect sustained strength in production in the months ahead. While the index remains below the high of 58.1 seen in August 2014, we don't believe this is anything to worry about. Remember that the economy was unusually strong in the summer of last year as it recovered from bad weather in the first quarter of 2014. The biggest jump in the June report came from the employment index, which rose 3.8 points to 55.5. This move higher is supported by the continued strength in initial and continuing claims reports. On the inflation front, the prices paid index was unchanged in June at 49.5. After significant declines starting in late 2014, prices have now begun to stabilize and should remain steady to slightly higher in the months ahead. Taken as a whole, this month's ISM report bolsters the case for a quick rebound after a weak Q1. In other news today, ADP reported an increase of 237,000 in private-sector payrolls in June. Plugging this into our models suggests tomorrow's official report will show an increase of 240,000 in nonfarm payrolls, slightly above the consensus expected 230,000. In other news this morning, construction spending increased 0.8% in May and was revised up for the past several months. The gain in May was led by chemical manufacturing facilities. On the housing front, pending home sales, which are contracts on existing homes, increased 0.9% in May, suggesting another gain in existing home sales in June. Meanwhile, the national Case-Shiller index, which measures home prices, was unchanged in April and up 4.2% in the past year. Compared to a year ago, the largest price increases have been in Denver, San Francisco, Dallas, and Miami. We expect national average home prices to increase around 3% in the year ahead, a little shy of increases in rents.

**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



<b>Institute for Supply Management Index</b> <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	<b>Jun-15</b>	<b>May-15</b>	<b>Apr-15</b>	<b>3-month moving avg</b>	<b>6-month moving avg</b>	<b>Year-ago level</b>
<b>Business Barometer</b>	<b>53.5</b>	52.8	51.5	52.6	52.6	55.7
<b>New Orders</b>	<b>56.0</b>	55.8	53.5	55.1	53.8	59.1
<b>Production</b>	<b>54.0</b>	54.5	56.0	54.8	54.8	59.9
<b>Inventories</b>	<b>53.0</b>	51.5	49.5	51.3	51.5	53.0
<b>Employment</b>	<b>55.5</b>	51.7	48.3	51.8	51.8	53.9
<b>Supplier Deliveries</b>	<b>48.8</b>	50.7	50.1	49.9	51.2	52.7
<b>Order Backlog (NSA)</b>	<b>47.0</b>	53.5	49.5	50.0	49.5	48.0
<b>Prices Paid (NSA)</b>	<b>49.5</b>	49.5	40.5	46.5	41.4	58.0
<b>New Export Orders</b>	<b>49.5</b>	50.0	51.5	50.3	49.4	54.5

Source: National Association of Purchasing Management