

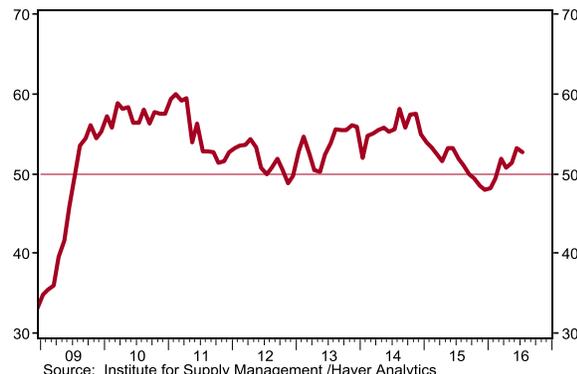
# July ISM Manufacturing Index

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

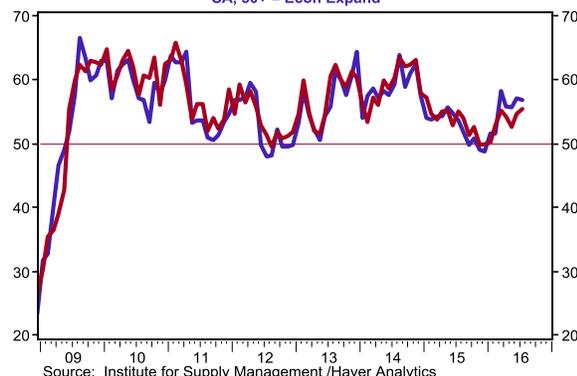
- The ISM manufacturing index declined to 52.6 in July, coming in slightly below the consensus expected level of 53.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in July, but most remain above 50, signaling growth. The supplier deliveries index fell to 51.8 from 55.4 in June, while the employment index declined to 49.4 from 50.4. The new orders index moved slightly lower to 56.9 from 57.0. The production index increased to 55.4 from 54.7 in June.
- The prices paid index declined to 55.0 in July, from 60.5 in June.

**Implications:** Activity in the manufacturing sector continued to rise in July, though at a slightly slower pace than in June. Despite the slight slowdown in the pace of expansion, July’s reading of 52.6 represents the second fastest pace of growth in the past year, second only to last month’s reading of 53.2. In other words, expansion has been modest, but faster in recent months. And the two most forward-looking measures, new orders and production, show growth is likely to continue higher in the months ahead. The expansion isn’t limited to a few select industries; twelve of eighteen industries reported growth in new orders, while five reported declines. Unfortunately, recent growth in manufacturing hasn’t been reflected in job growth in that sector. While manufacturing added 14,000 jobs in June, manufacturing employment has declined by an average of 4,000 jobs per month in 2016. But manufacturing represents just a small portion of total employment and productivity is growing, meaning we can get more output even as the sector’s employment levels contract. With new orders coming in at a rising pace and production showing the highest reading in more than a year, expect the employment index to rise back above 50 (signaling growth) in the months ahead. On the inflation front, the prices paid index fell to 55.5 in July, showing prices continued to rise, but at a slower pace than in June. This marks a fifth straight month of increasing prices after declining for sixteen consecutive months as oil prices plummeted starting back in 2014. As a whole, today’s report shows manufacturing activity moving in the right direction. It isn’t booming, but it should continue to plow forward at a modest pace. In other news this morning, construction declined 0.6% in June (-0.8% including revisions to prior months). The decline in June was primarily due to a drop in spending on manufacturing facilities and commercial buildings, offset in part by a rise in power and water supply projects.

**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 <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	Jul-16	Jun-16	May-16	3-month moving avg	6-month moving avg	Year-ago level
<b>Business Barometer</b>	<b>52.6</b>	53.2	51.3	52.4	51.5	51.9
<b>New Orders</b>	<b>56.9</b>	57.0	55.7	56.5	55.9	53.6
<b>Production</b>	<b>55.4</b>	54.7	52.6	54.2	54.2	55.0
<b>Inventories</b>	<b>49.5</b>	48.5	45.0	47.7	46.8	49.5
<b>Employment</b>	<b>49.4</b>	50.4	49.2	49.7	49.1	51.9
<b>Supplier Deliveries</b>	<b>51.8</b>	55.4	54.1	53.8	51.7	49.3
<b>Order Backlog (NSA)</b>	<b>48.0</b>	52.5	47.0	49.2	49.6	42.5
<b>Prices Paid (NSA)</b>	<b>55.0</b>	60.5	63.5	59.7	54.7	44.0
<b>New Export Orders</b>	<b>52.5</b>	53.5	52.5	52.8	51.6	48.0

Source: National Association of Purchasing Management