

June ISM Manufacturing Index

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

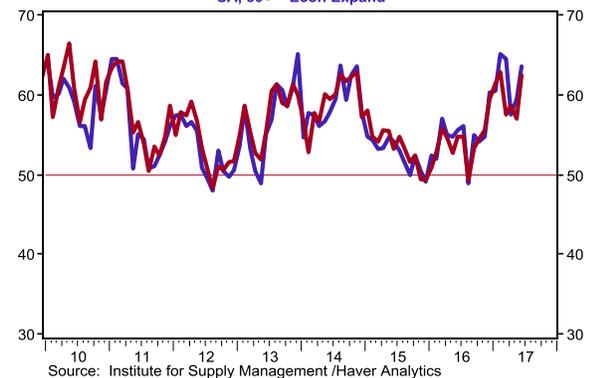
- The ISM Manufacturing Index rose to 57.8 in June, easily beating the consensus expected 55.3. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all higher in June, and all stand above 50, signaling growth. The production index surged to 62.4 from 57.1 in May, while the new orders index rose to 63.5 from 59.5. The supplier deliveries index increased to 57.0 from 53.1, and the employment index moved higher to 57.2 from 53.5 in May.
- The prices paid index declined to 55.0 in June from 60.5 in May.

Implications: Manufacturing activity expanded at the fastest pace in nearly three years in June, and recorded the second highest reading going back to early 2011. 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 and picking up pace in June. The two most forward looking indices - new orders and production – showed the largest gains in June, and continue the trend higher that started after last year’s elections. And through the first half of 2017, the new orders index has averaged the highest readings to start a year since 2004! With healthy growth in orders, expect production activity to also remain strong in the coming months. On the jobs front, the employment index rose to 57.2 in June. 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 some turbulent times for the manufacturing sector. Our forecast may change with data still to come before Friday’s jobs report, but we are currently forecasting 185,000 jobs added in June (as well as upward revisions to prior months data). On the inflation front, the prices paid index declined to 55.0 in June from 60.5 in May. In other words, prices continue to rise, but at a slower pace than in recent months. Chalk that up to recent weakness in energy prices. However, rising economic activity and the lagged effect of loose monetary policy continue to put pressure on a wide variety of input prices and place the onus on the Fed not to fall behind the curve in raising rates that are too low for the current environment. Construction data, also released this morning, included annual benchmark revisions. So while the headline reading from the report shows spending was unchanged in May, revisions to prior months show construction activity occurred at a higher pace than previously estimated. In May, a pickup in spending on education related construction was offset by declines in home building and manufacturing facilities.

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>	Jun-17	May-17	Apr-17	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	57.8	54.9	54.8	55.8	56.4	52.8
New Orders	63.5	59.5	57.5	60.2	61.8	55.6
Production	62.4	57.1	58.6	59.4	60.0	54.8
Inventories	49.0	51.5	51.0	50.5	50.1	48.5
Employment	57.2	53.5	52.0	54.2	55.3	50.0
Supplier Deliveries	57.0	53.1	55.1	55.1	54.9	54.9
Order Backlog (NSA)	57.0	55.0	57.0	56.3	55.5	52.5
Prices Paid (NSA)	55.0	60.5	68.5	61.3	65.3	60.5
New Export Orders	59.5	57.5	59.5	58.8	57.5	53.5

Source: National Association of Purchasing Management

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