



Economics Group

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ISM: Growth Moderates, Jobs Positive, Prices as Well

Moderating gains in the ISM index continues to suggest slower growth in the second half of this year. July's ISM index at 55.5 further supports the slowdown outlook. On the plus side, prices have moderated as well.

Manufacturing: Expansion, but at a Slower Pace

In July the positive momentum of the ISM index moderated once again to 55.5 from 56.2 in June and the peak at 60.4 in April. The ISM index takes into account measures of sentiment on orders, production, supplier deliveries, inventories and employment. In July, compared to June, we saw moderation, but still growth, in the new orders, production and supplier deliveries. Employment actually rose. Moderation in the ISM index is consistent with our expectation for slower industrial production in the second half of this year. This slowdown has been our expectation since our annual outlook was published in December.

Production, Employment: Where are We Now? Growth

ISM's production index came in at 57.0 and although it is down from the prior month, the overall index is still suggesting continued expansion. For production, there were increases in eight industries in July including paper, plastics, printing, computers, electrical equipment and primary metals.

The employment index rose to 58.6 compared to 57.8 in June. The level of the index is consistent with expansion of jobs in the manufacturing sector. Ten of the 18 sectors adding jobs include paper, transportation, fabricated metals and electrical equipment—all for the second month in a row.

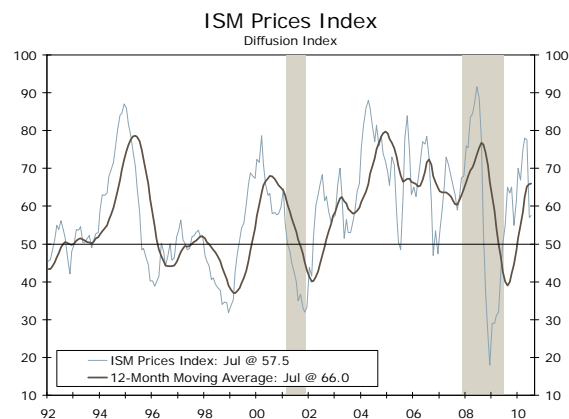
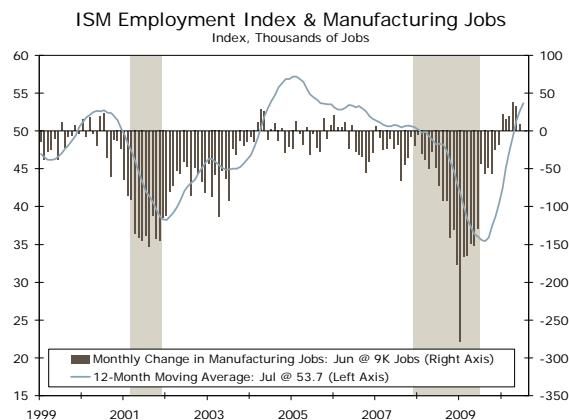
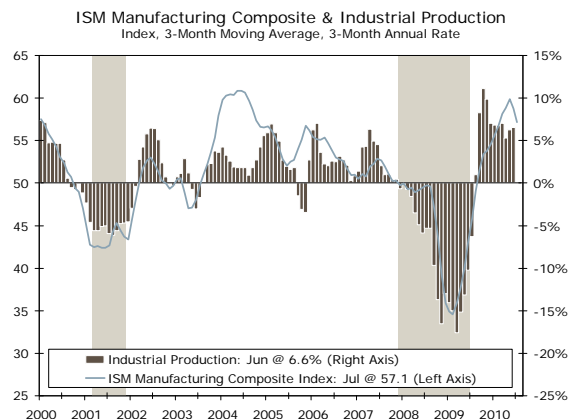
New Orders, Supplier Deliveries: Where are We Going?

Two leading indicators for manufacturing activity are new orders and supplier deliveries. For new orders, the overall index fell to 53.5, which is still consistent with expansion in the manufacturing sector. Eight industries registered a gain in new orders including plastics, paper and electrical equipment. Supplier deliveries (another leading indicator) came in at 58.3, up from 57.3 in June but still in expansion mode. Eleven industries reported slower deliveries—slower deliveries suggest positive momentum as the longer delivery times are consistent with an uptick in new orders relative to the pace of current production.

Our view is that growth in the manufacturing sector is moderating, not collapsing, and that suggests the expansion in the overall economy continues. We do not expect a double dip.

Prices: Slowdown in Input Price Increases

Prices paid continued to increase, albeit at a slower pace than earlier this year. Commodities showing price increases include metals, corrugated containers and paper. Corrugated container prices were up for the fifth month in a row. Lower input prices are a plus for manufacturing firm profit margins. Our outlook for producer prices is 3.0 percent in the second half of this year compared to a gain of 5 percent in the first half. Disinflation, not deflation, remains the outlook so that inflation remains on the sidelines for this year.



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