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July ISM Manufacturing Index: July Data A Mixed Bag

- > The ISM Manufacturing Index fell to 52.7 percent in July.
- > The new orders component rose to 56.5 percent; the employment component fell to 52.7 percent.

The ISM Manufacturing Index fell to 52.7 percent in July, below the consensus call of 53.8 percent and below our call of 53.1 percent. Still, the data are a mixed bag with the components for new orders and current production rising while the components for employment, inventories, and order backlogs fell. And, despite July's decline, the ISM index is signaling more of the same for the factory sector – continued steady growth despite challenges from soft global economic growth and a struggling domestic energy sector.

In this week's *Economic Preview* we noted June's gain in the ISM Manufacturing Index seemed a bit outsized in our view, particularly the increases posted by the employment, inventory, and supplier delivery components, and that we expected to see some giveback in the July data. This turned out to be the case for the first two of these components, though there was a bit more give than we anticipated. After touching 55.5 percent in June the employment component fell back to 52.7 percent, indicating expansion in payrolls at a rate which, while slower than June, is above the average pace seen over the prior six months. Of the 18 industry groups included in the ISM survey 10 added to payrolls in June while 5 reported lower head counts.

The inventory component fell to 49.5 percent, indicating lower inventories across the manufacturing sector as a whole. This is not entirely surprising in light of the sizeable growth in nonfarm inventories reported in the GDP data over the first two quarters of 2015. With growth in final demand still somewhat uncertain, at least in certain segments of the domestic economy and across much of the global economy it makes sense firms would want to take more control over inventory levels. In July, six of the 18 industry groups reported lower stock levels while six industry groups reported higher stocks.

The new orders index rose to 56.5 percent in July, marking the 32nd consecutive month in which new orders have grown. Ten industry groups reported higher orders in July while six industry groups reported a drop in new orders. The component for current production rose from 54.0 percent in June to 56.0 percent in July, marking the 35th consecutive month with growth in production. Eight industry groups saw growth in production in July while five reported a decline in production. The continued increases in new orders mean production should grow further over coming months, particularly with firms seemingly more intent on controlling inventory levels. This continued growth in production should, in turn, support further steady, if not overly robust, growth in manufacturing payrolls.

One disheartening element of the July ISM manufacturing survey was a further decline in the component for new export orders. Note this component does not enter into the calculation of the headline index but is nonetheless a reliable signal of trends in U.S. exports of goods. After 25 consecutive months of growth new export orders declined each month in Q1 before turning up again in April. To some extent these swings reflected the impact of the West Coast port strike but the more fundamental factor was a softening global growth environment, particularly with stumbles in China and Canada. July marks a second consecutive month in which new export orders declined, suggesting trade will be a drag on Q3 real GDP growth.

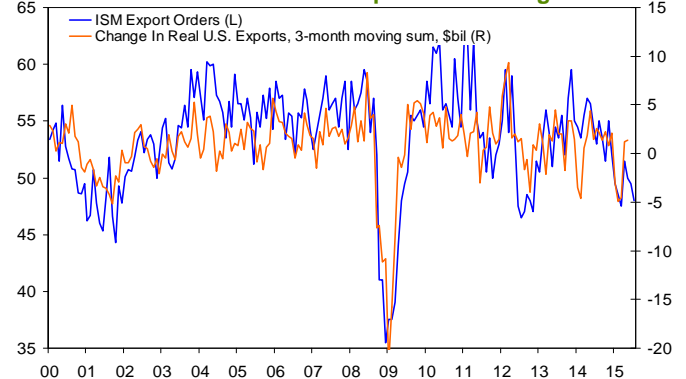
Comments from survey respondents reflect concern over avian flu, the recent downturn in crude oil prices, and a general summer slowdown. While domestic economic conditions are supportive of manufacturing activity, the global growth outlook remains a question mark. On the whole, the ISM survey suggests continued moderate growth in the manufacturing sector, albeit this growth will remain uneven across industry groups.



July A Mixed Bag For ISM Manufacturing Index



More Roadblocks For U.S. Exports In Coming Months



Production To See Continued Steady Growth

