



ISM Manufacturing Index: PMI Down in July

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of Advisor Perspectives

Today the Institute for Supply Management published its monthly Manufacturing Report for July. The latest headline Purchasing Managers Index (PMI) was 58.1 percent, a decrease of 2.1 percent from 60.2 the previous month. Today's headline number was below the *Investing.com* forecast of 59.4 percent.

Here is the key analysis from the report:

"The July PMI® registered 58.1 percent, a decrease of 2.1 percentage points from the June reading of 60.2 percent. The New Orders Index registered 60.2 percent, a decrease of 3.3 percentage points from the June reading of 63.5 percent. The Production Index registered 58.5 percent, a 3.8 percentage point decrease compared to the June reading of 62.3 percent. The Employment Index registered 56.5 percent, an increase of 0.5 percentage point from the June reading of 56 percent. The Supplier Deliveries Index registered 62.1 percent, a 6.1 percentage point decrease from the June reading of 68.2 percent. The Inventories Index registered 53.3 percent, an increase of 2.5 percentage points from the June reading of 50.8 percent. The Prices Index registered 73.2 percent in July, a 3.6 percentage point decrease from the June reading of 76.8 percent, indicating higher raw materials prices for the 29th consecutive month."

Here is the table of PMI components.

MANUFACTURING AT A GLANCE
JULY 2018

Index	Series Index Jul	Series Index Jun	Percentage Point Change	Direction	Rate of Change	Trend* (Months)
PMI®	58.1	60.2	-2.1	Growing	Slower	23
New Orders	60.2	63.5	-3.3	Growing	Slower	31
Production	58.5	62.3	-3.8	Growing	Slower	23
Employment	56.5	56.0	0.5	Growing	Faster	22
Supplier Deliveries	62.1	68.2	-6.1	Slowing	Slower	22
Inventories	53.3	50.8	2.5	Growing	Faster	7
Customers' Inventories	39.4	39.7	-0.3	Too Low	Faster	22
Prices	73.2	76.8	-3.6	Increasing	Slower	29
Backlog of Orders	54.7	60.1	-5.4	Growing	Slower	18
New Export Orders	55.3	56.3	-1.0	Growing	Slower	29
Imports	54.7	59.0	-4.3	Growing	Slower	18
OVERALL ECONOMY				Growing	Slower	111
Manufacturing Sector				Growing	Slower	23

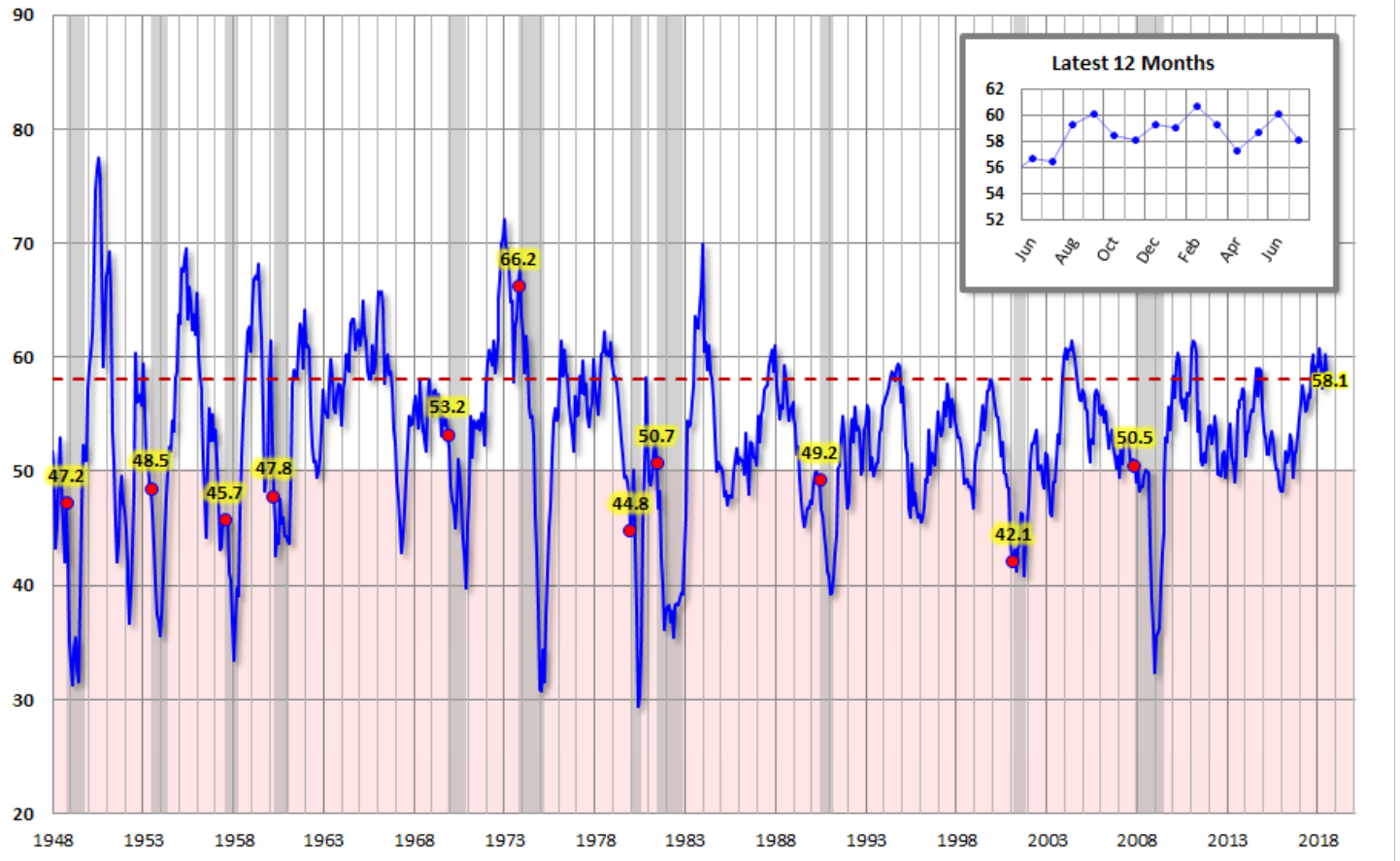
Manufacturing ISM® *Report On Business*® data is seasonally adjusted for the New Orders, Production, Employment and Supplier Deliveries Indexes.

*Number of months moving in current direction.

The chart below shows the Manufacturing Composite series, which stretches back to 1948. The eleven recessions during this time frame are indicated along with the index value the month before the recession starts.

ISM Manufacturing: PMI Composite Index Monthly Series with Recessions Highlighted

Dashed line shows the current level, Dots highlight the month before a recession

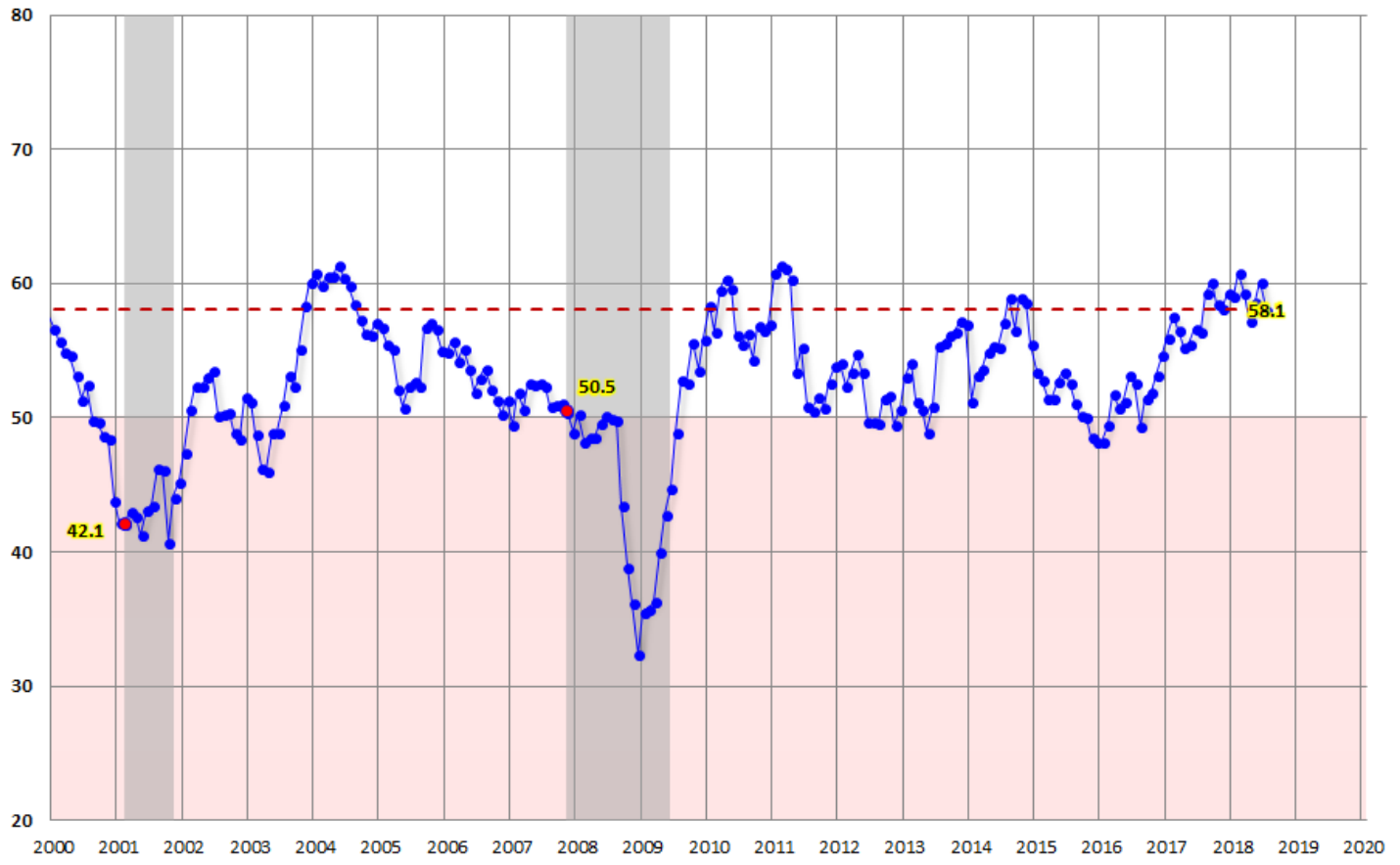


For a diffusion index, the latest reading of 58.1 is its twenty-third consecutive month of expansion. What sort of correlation does that have with the months before the start of recessions? Check out the red dots in the chart above.

Here is a closer look at the series beginning at the turn of the century.

ISM Manufacturing: PMI Composite Index Monthly Series with Recessions Highlighted

Dashed line shows the current level, Dots highlight the month before a recession



Note: This commentary used the FRED USRECP series (Peak through the Period preceding the Trough) to highlight the recessions in the charts above. For example, the NBER dates the last cycle peak as December 2007, the trough as June 2009 and the duration as 18 months. The USRECP series thus flags December 2007 as the start of the recession and May 2009 as the last month of the recession, giving us the 18-month duration. The dot for the last recession in the charts above is thus for November 2007. The "Peak through the Period preceding the Trough" series is the one FRED uses in its monthly charts, as illustrated here.