

THE ECONOMIC OUTLOOK GROUP



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ECONOMIC TALKING POINTS

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August 3, 2009

ISM and Construction Spending Throttle Up the Economy's Engines

You can almost hear the economy's engines beginning to ramp up. Raising the throttle this morning were two new reports, one on ISM manufacturing activity and the other construction spending. This time we're going to simply let the numbers speak for themselves this time.

Institute for Supply Management - Manufacturing

1. **ISM's index of new orders** for manufactured products jumped to 55.3 in July, the strongest performance in two years!! Nine of the 18 industries surveyed reported an increase in bookings.

Electrical Equipment, Appliances & Components;
Primary Metals;
Paper Products;
Printing & Related Support Activities;
Chemical Products;
Transportation Equipment;
Miscellaneous Manufacturing;
Fabricated Metal Products;
Computer & Electronic Products.

2. **ISM manufacturing production** rose to 57.9 last month, the best performance since June of 2007.

Here 11 of 18 industries said output had jumped in their factories:

Nonmetallic Mineral Products;
Paper Products;
Textile Mills;
Printing & Related Support Activities;
Electrical Equipment, Appliances & Components;
Transportation Equipment;
Computer & Electronic Products;
Fabricated Metal Products;
Chemical Products;
Food, Beverage & Tobacco Products;
Miscellaneous Manufacturing.

3. **Supplier Delivery Times index.** Why is this noteworthy? It tells how quickly manufacturers can respond to new orders coming in. The busier the manufacturer, the longer it takes to fill out new orders. (Obviously, in a recession when orders are scarce, delivery times tend to be faster. In contrast, delivery times slow as economic activity picks up.)

For July, the delivery time index increased to 52, the most since July of last year. (Remember, the slower the delivery, the higher the index.)

Seven industries reported slower supplier deliveries last month:

Textile Mills;
Wood Products;
Furniture & Related Products;
Transportation Equipment;
Fabricated Metal Products;
Machinery;
Chemical Products.

One reason we like to monitor the performance of individual industries in the ISM reports is because it foreshadows improvements in sales for those sectors of the economy. Thus, not only do we get fresh insights on macroeconomic conditions, the ISM series also provide one of the earliest clues on changes in revenues and profits for specific sectors in manufacturing --- long before companies release their quarterly earnings reports.

Construction Spending:

The other major economic report today was construction spending. Again, we'll let the numbers tell the story. Hint: The federal stimulus program is finally having an impact on building activity.

Total private construction **FELL** 0.1% in June, to \$643.9 billion annual rate.

Total government construction ROSE 1.0% that month, to \$321.7 billion rate.

Residential construction by private builders was up 0.5% in June.

Residential construction by the government LEAPED 4.6%.

Non-residential construction by private builders **DECLINED** 0.5% last month.

Non-residential construction by the government INCREASED 0.9%.

Lots more data to come this week:

Personal income and spending

Factory orders

ISM non-manufacturing

Employment

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