U.S. Flash

Manufacturing Activity Rebounds in Both New Orders & Production

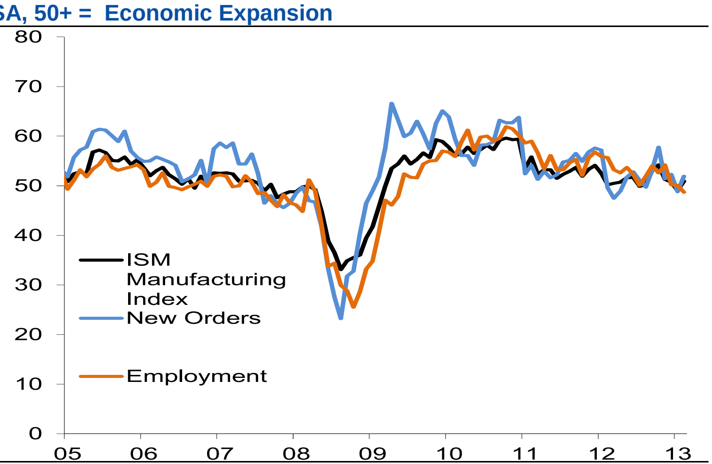
- **The ISM Manufacturing Index rebounded after a weaker May to 50.9 in June**
- **New orders and production both returned to positive growth, at 51.9 & 53.4 respectively**
- **Employment dropped to 48.7, contracting for the first time since September 2009**

Alleviating the worry that the manufacturing sector was going to remain in contraction for the last two months of 2Q13, the figure for June showed some renewed confidence in the industry. Rising almost 2 points in June to 50.9, the sector grew at an impressive clip after stuttering the month prior. New orders rose from 48.8 to 51.9 as the weakness from May subsided and firms began to request more from the sector as we shift into 2H13. While there were calls for a weakening manufacturing sector as certain industry-specific data was conveying some deceleration, the recent durable goods orders report and June's ISM outlook may help to silence the fear of a slowdown in the sector. As a current measure of how manufacturing activity faired after a weaker May, the production index surged from a weak 48.6 to 53.4, one of the more prolific rebounds seen in the index and a significant signal that the weakness was primarily focused in May. Entering into 2H13, the aforementioned components of the report help to assuage the temporary uncertainty behind the sector's performance and supports pundits' call for a stronger 2H13. Given the weaker performance in May, the uptick in inventories is understandable and with the prices component showing some strength, firms will be more than likely to shed some of the accrued capital. Growth from abroad also helped to make this report a much needed boost to manufacturers' confidence: new export orders, already expanding in May, rose to 54.5 in June as renewed interest in U.S. manufactured goods helped drive not only the ISM index, but may also have an effect on the international trade figure next month. On the U.S. end, the import index rose up 1.5 points to 56 which is the highest level reached since March of 2011 as some currency fluctuations have made foreign goods more accessible to U.S. firms.

One negative component of the index that does dampen the optimism instilled by the remaining components is the employment index. Very near the 50 mark for the past two months, the index tumbled into contraction, declining moderately to 48.7 in June. From its peak in February of 2011, the ISM manufacturing employment index has been decelerating precipitously and continues to plumb new lows, contracting in June for the first time since September 2009. While by no means is this employment index a measure of those currently employed, the notion that it has dropped below 50 might indicate that the current situation for the sector is not as positive as the headline figure might purport.

Overall, the report for June is still positive and the production and new orders components help to subdue the fear of a significant decline in manufacturing activity heading into the second half of the year. While the employment index continues to decelerate, breaking the 50 level into contraction, the lower figure may also be a lagged response to the May decline and could rebound in the same manner as other components throughout the coming months.

Chart 1
ISM Manufacturing Index, New Orders & Employment
SA, 50+ = Economic Expansion



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