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## SEPTEMBER 2015 ISM

Today's Purchasing Managers' Index (PMI) release contained few surprises. It simply confirms the primary U.S. economic trends that have been in place for some time:

- The economic expansion continues
- Its pace remains slow (+2% real GDP growth) relative to past expansions and the economy's likely underlying potential

The following statement contained within the report summarizes it well:  
(The table reflecting the guts of the PMI is shown below.)

*A PMI<sup>®</sup> in excess of 43.1 percent, over a period of time, generally indicates an expansion of the overall economy. Therefore, the September PMI<sup>®</sup> indicates growth for the 76th consecutive month in the overall economy, and indicates expansion in the manufacturing sector for the 33rd consecutive month. Holcomb stated, "The past relationship between the PMI<sup>®</sup> and the overall economy indicates that the average PMI<sup>®</sup> for January through September (52.2 percent) corresponds to a 2.9 percent increase in real gross domestic product (GDP) on an annualized basis. In addition, if the PMI<sup>®</sup> for September (50.2 percent) is annualized, it corresponds to a 2.2 percent increase in real GDP annually."*

The best leading indicator within the report (new orders) has certainly cooled from higher levels a few months ago, but signals the continuation of the expansion. The new order index may well register similar cooler readings for a few more months as customer inventories (for the second month now) are reported to be on the "too high" side of desired levels. Despite this, total inventory levels do not appear to be at problematic end-of-business expansion types of levels. Further, respondents noted that orders related to commodities (oil, gas, and mining, specifically) remain under downward pressure reflecting the big declines in commodity prices that have occurred as the "emerging market century" and the "commodity super-cycle" proved unsustainable. While the production side of the economy is making necessary adjustments for the changing commodity demand outlook, in our book, lower commodity prices is ultimately a good thing!

In previous business expansions the new order index and the PMI itself regularly ebb and flow from month to month and quarter to quarter. It is no different this time around except that in the environment characterized by fear, uncertainty, and doubt (FUD) that's prevailed since the 2008 Financial Panic, each instance of ebbing in data is feared to be the start of the next economic and market meltdown.

The FUD environment has also consistently underestimated both the dynamism and resilience of the U.S. economy. We suspect that again is the case - even in the midst of a confused Fed, China's economic slowdown, VW's woes and troubles at companies that hitched their wagons to the commodity super-cycle (Caterpillar, Glencore, Petrobras). As a result, the recent downward shift in economic and corporate earnings growth expectations should prove too extreme. The expectations "bar" has likely been sufficiently lowered that even a slow expansion and muddling overall corporate earnings backdrop will again provide the positive (favorable) element of surprise when it comes to companies that demonstrate their ability to grow at a decent clip within this environment.

Here's the PMI table:

<b>MANUFACTURING AT A GLANCE</b>						
<b>SEPTEMBER 2015</b>						
<b>Index</b>	<b>Series Index Sep</b>	<b>Series Index Aug</b>	<b>Percentage Point Change</b>	<b>Direction</b>	<b>Rate of Change</b>	<b>Trend** (Months)</b>
<b>PMI<sup>®</sup></b>	50.2	51.1	-0.9	Growing	Slower	33
<b>New Orders</b>	50.1	51.7	-1.6	Growing	Slower	34
<b>Production</b>	51.8	53.6	-1.8	Growing	Slower	37
<b>Employment</b>	50.5	51.2	-0.7	Growing	Slower	5
<b>Supplier Deliveries</b>	50.2	50.7	-0.5	Slowing	Slower	2
<b>Inventories</b>	48.5	48.5	0	Contracting	Same	3
<b>Customers' Inventories</b>	54.5	53.0	+1.5	Too High	Faster	2
<b>Prices</b>	38.0	39.0	-1.0	Decreasing	Faster	11
<b>Backlog of Orders</b>	41.5	46.5	-5.0	Contracting	Faster	4
<b>Exports</b>	46.5	46.5	0	Contracting	Same	4
<b>Imports</b>	50.5	51.5	-1.0	Growing	Slower	32
<b>OVERALL ECONOMY</b>				Growing	Slower	76
<b>Manufacturing Sector</b>				Growing	Slower	33

**Manufacturing ISM<sup>®</sup> Report On Business<sup>®</sup>** data is seasonally adjusted for New Orders, Production, Employment and Supplier Deliveries indexes.

\*Number of months moving in current direction

NOTE: All figures except backlog of orders, customer inventories, imports, exports, inventories & prices paid are seasonally adjusted. The diffusion index is calculated by adding the percent of positive responses plus one half of those responding the same.

\*A PMI<sup>™</sup> reading above 50 percent indicates that the manufacturing economy is generally expanding; below 50 percent indicates that it is generally declining. A PMI<sup>™</sup> in excess of 42.2 percent, over a period of time, indicates that the overall economy, or gross domestic product (GDP), is generally expanding; below 42.2 percent, it is generally declining.

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