**UNITED STATES**

**Strongest improvement in manufacturers’ confidence in 18 years**

**HIGHLIGHTS**

- The ISM manufacturing index reached 55.4 in July, compared with 50.9 in June.
- Looking at the components, the largest gains were found in production (+11.6 to 65.0), new orders (+6.4 to 58.3) and employment (+5.7 to 54.4).
- Meanwhile, we note a drop in the prices component, from 52.5 to 49.0.

**COMMENTS**

This advance in the ISM manufacturing index constitutes more good news for the U.S. economy. Not only is it higher than expected, but it is quite generalized, since 13 of the 18 main industries showed improvement during the month.

At 55.4, the ISM manufacturing index has just reached its highest level in a little over two years. Moreover, the 4.5-point advance compared with June constitutes the sharpest monthly gain since July 1995. Clearly, outlooks seem to be improving for U.S. manufacturers, which can only be beneficial for the country’s economic growth. In fact, the Institute for Supply Management tells us that an ISM manufacturing index of 55.4 corresponds, once annualized, to a 4.1% gain in real GDP! But we should not delude ourselves: it would be astonishing for the index to stay at that high level, given the volatility of recent months and the fragility of the global economic climate.

Today’s numbers also provide additional information about the weakness of inflation in the United States. The prices component has fallen below the 50 threshold, a level that is usually associated with lower prices of manufactured goods and weaker inflation in general. This is a major concern for the Federal Reserve (Fed), as we saw in the press release issued yesterday.

**Implications:** The U.S. manufacturing sector is recovering, but the statistics continue to be volatile and the outlooks are still imbued with uncertainty. As recently as last May, the ISM manufacturing index fell below the 50 mark, after reaching 54.2 in February. Nevertheless, today’s number should give some comfort to the Fed regarding its strategy for exiting from its current monetary policy (reducing its bond purchases in the fall).

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