September 6, 2016 • 630.517.7756 • www.ftportfolios.com

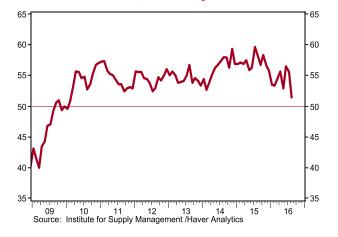
August ISM Non-Manufacturing Index

Brian S. Wesbury – Chief Economist **Robert Stein, CFA** – Dep. Chief Economist **Strider Elass** – Economist

- The ISM non-manufacturing index declined to 51.4 in August from 55.5 in July, coming in well below the consensus expected 54.9. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in August, but all stand above 50, signaling expansion. The new orders index fell to 51.4 from 60.3 while the business activity index declined to 51.8 from 59.3 in July. The employment index slipped to 50.7 from 51.4. The supplier deliveries index rose to 51.5 from 51.0.
- The prices paid index was essentially unchanged at 51.8 in August from 51.9 in July.

Implications: The service sector expanded for a 79th consecutive month in August, though at a slower pace than in recent months. Remember, readings above 50 signal expansion, so despite the decline in most major measures of the service sector, all still showed growth from July. Expansion continued to be broad-based in August, with eleven of eighteen industries reporting growth, while seven reported contraction. business activity and new orders indexes led the headline index lower, but even with the slowdowns in the pace of expansion, both measures have shown healthy growth to date in 2016. And with continued employment gains, rising wages, and healthy consumer spending, growth prospects remain positive for the months ahead. On the employment front, nine of eighteen industries reported increased hiring activity in August, while five reported reductions. This is a slight tick down from what we saw in July, when non-farm payrolls rose 275,000, and reinforces our expectations that the August employment report will revised higher in the months ahead. And, given the sustained activity in new orders and business activity, we expect the employment index to continue showing healthy growth in the months ahead. Don't expect gains of 250,000+ jobs to be the norm in the coming months, but employment gains north of 150,000 should continue to signal a tight labor market and give the Fed confidence that the job market is giving a green light for continued rate hikes. On the inflation front, the prices paid index was almost essentially unchanged at 51.8 in August compared to a reading of 51.9 in July. Declining costs for beef, eggs, and computers were largely offset by rising prices for semi-trucks, cheese, and coffee. As a whole, today's ISM report shows an economy continuing to expand at a modest pace, and no recession signs in sight.

ISM Nonmanufacturing: NMI Composite Index SA 50+=Increasing



ISM Nonmanufacturing: Prices Index

SA, 50+ = Economy Expanding



Non-Manufacturing ISM Index Seasonally Adjusted Unless Noted	Aug-16	Jul-16	Jun-16	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	51.4	55.5	56.5	54.5	54.4	58.3
Business Activity	51.8	59.3	59.5	56.9	57.4	62.3
New Orders	51.4	60.3	59.9	57.2	57.1	62.1
Employment Employment	50.7	51.4	52.7	51.6	51.3	56.2
Supplier Deliveries (NSA)	51.5	51.0	54.0	52.2	51.8	52.5
Prices	51.8	51.9	55.5	53.1	52.9	50.7

Source: Institute for Supply Management