

## July ISM Non-Manufacturing Index

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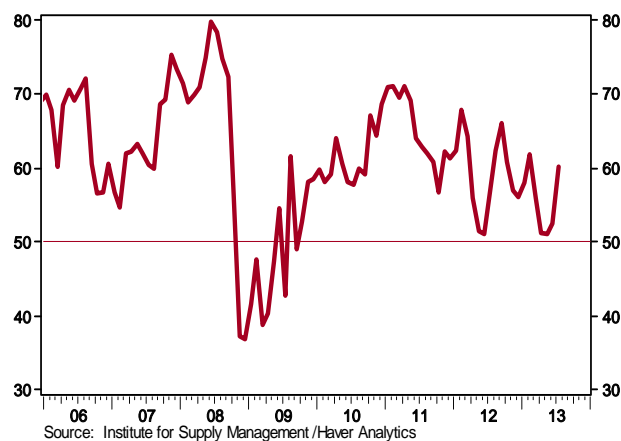
- The ISM non-manufacturing index rose to 56.0 in July, coming in well above the consensus expected 53.1. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were mostly higher in July, and all remain above 50. The new orders index rose to 57.7 from 50.8 and the business activity index increased to 60.4 from 51.7 while the supplier deliveries index gained to 52.5 in July from 51.5. The exception was the employment index, which declined to 53.2 from 54.7.
- The prices paid index rose to 60.1 in July from 52.5 in June.

**Implications:** Just like its manufacturing sister report, the ISM service report boomed in July easily beating not only consensus expectations but the predictions from all of the 84 economics groups that made a forecast. Both reports signal a pickup in economic growth in Q3. The ISM service report expanded at the fastest pace in five months. The business activity index, – which has a stronger correlation with economic growth than the overall index – boomed to 60.4, while the new orders index also showed notable growth to 57.7. The only disappointing part of today’s report was the employment index which fell to 53.2. We expect this measure to move higher in coming months as more hiring occurs as companies see higher production in the future (which the business activity index is showing). On the inflation front, the prices paid index rose to 60.1 in July from 52.5 in June. Given loose monetary policy, we expect this measure to remain elevated over the coming year. Pessimistic analysts have been touting the end of the payroll tax cut and the federal spending sequester as reasons to expect weaker economic growth. But the truth, from looking at the data so far, is little to no significant impact from these events on the consumer or economy, and we do not think there will be. What we have here is a Plow Horse Economy that looks like it may be starting to trot.

ISM Nonmanufacturing: NMI Composite Index  
 SA, 50+=Increasing



ISM: Nonmfg: Prices Index  
 SA, 50+ = Econ Expand



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Jul-13	Jun-13	May-13	3-month moving avg	6-month moving avg	Year-ago level
<b>Composite Index</b>	56.0	52.2	53.7	54.0	54.2	52.9
<b>Business Activity</b>	60.4	51.7	56.5	56.2	56.2	56.9
<b>New Orders</b>	57.7	50.8	56.0	54.8	55.3	55.4
<b>Employment</b>	53.2	54.7	50.1	52.7	53.4	49.9
<b>Supplier Deliveries (NSA)</b>	52.5	51.5	52.0	52.0	51.9	49.5
<b>Prices</b>	60.1	52.5	51.1	54.6	55.4	57.2

Source: Institute for Supply Management