

July 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 55.5 in July from 56.5 in June, coming in slightly below the consensus expected 55.9. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in July, but all stand above 50, signaling expansion. The supplier deliveries index fell to 51.0 from 54.0 while the employment index declined to 51.4 from 52.7 in June. The business activity index slipped to 59.3 from 59.5. The new orders index rose to 60.3 from 59.9.
- The prices paid index declined to 51.9 in July from 55.5 in June.

Implications: The service sector continues to expand at a steady clip. The ISM non-manufacturing index declined from June’s seven month high to a still healthy reading of 55.5 in July. Remember, readings above 50 signal expansion, so the service sector continued to grow in July – and for a 78th consecutive month – but at a slightly slower pace than in June. The growth in July was broad based, with fifteen of eighteen industries reporting expansion, while just three reported contraction. The best news in today’s report is that both new orders and business activity remain elevated, suggesting positive signs for the months ahead. The new orders index rose to 60.3 in July, the highest reading in 2016, while the business activity index was essentially unchanged at 59.3 in July from 59.5 in June. Taken together, growth prospects remain positive with no sign of a looming recession. Twelve of eighteen industries reported increased hiring activity in July, keeping the index above 50 (signaling growth). This reading is in line with our expectation that Friday’s employment report will once again show healthy nonfarm jobs growth, lower than the 287,000 jobs created in June, but a sign that May’s reading of just 11,000 jobs created was an outlier. 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. On the inflation front, the prices paid index moved lower to 51.9 in July from 55.5 in June, as rising costs for beef, dairy, and labor were partially offset by declining prices for chicken and pork. Taken as a whole, today’s ISM report shows a healthy start to the second half of 2016, with no recession signs in sight. In other recent news, automakers reported they sold cars and light trucks at a 17.9 million annual rate in July, up 6.8% from June, up 1.7% from a year ago, and the fastest pace so far this year. Meanwhile, the ADP index showed a private-sector payroll gain of 179,000 in July. Plugging this into our models suggests Friday’s official report will be a nonfarm gain of about 190,000. That should help boost the odds of rate hikes later this year.

ISM Nonmanufacturing: NMI Composite Index

SA, 50+=Increasing



ISM Nonmanufacturing: Prices Index

SA, 50+ = Economy Expanding



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Jul-16	Jun-16	May-16	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	55.5	56.5	52.9	55.0	54.8	59.6
Business Activity	59.3	59.5	55.1	58.0	58.4	63.4
New Orders	60.3	59.9	54.2	58.1	57.8	62.6
Employment	51.4	52.7	49.7	51.3	51.1	59.2
Supplier Deliveries (NSA)	51.0	54.0	52.5	52.5	51.7	53.0
Prices	51.9	55.5	55.6	54.3	51.8	52.3

Source: Institute for Supply Management