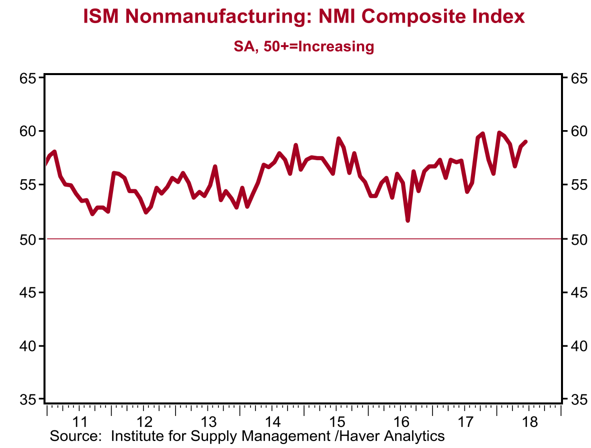
First Trust DATAWATCH

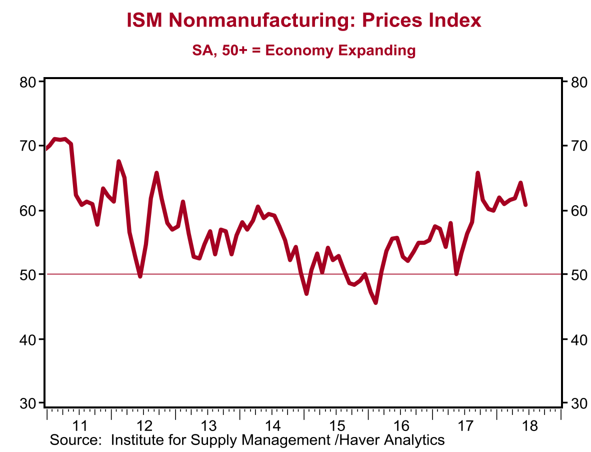
July 5, 2018 • 630.517.7756 • www.ftportfolios.com

# June ISM Non-Manufacturing Index

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

- The ISM non-manufacturing index rose to 59.1 in June, easily beating the consensus expected 58.3. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in June, but all remain comfortably above 50, signaling expansion. The new orders index rose to 63.2 from 60.5 in May, while the business activity index increased to 63.9 from 61.3. The supplier deliveries index declined to 55.5 from 58.5 in May, and the employment index fell to 53.6 from 54.1.
- The prices paid index declined to 60.7 from 64.3 in May.




**Implications**: The first half of 2018 saw the service sector off to its second-best start to a year (behind just 2004, which also followed tax cuts) since reporting began in late 1997. If that sounds familiar, it's because we reported on Monday that the manufacturing sector is also having its best year-to-date in more than a decade. Seventeen of eighteen service industries reported growth in June, while only one – agriculture, forestry, fishing & hunting (yes, that's just one category!) – showed decline. The most forward-looking indices – new orders and business activity – both rose in June and now stand at robust readings above 60 (including business activity hitting the highest reading since 2005). Given the healthy pace of activity, expect the service sector to continue humming along in the coming months. The supplier deliveries index showed the largest decline in June, following a decade-high reading in May. Deliveries continue to be delayed due to a combination of driver shortages in freight trucking and a shortage of qualified labor. Paired with continued strength in new orders, the delays are putting upward pressure on prices that looks likely to remain over the intermediate term. While this is not a sign that prices are going to take off any time soon, it does suggest that inflation will keep running above the Fed's 2% inflation target, which has already been breached by all three key inflation measures – PPI, CPI, and the Fed's favored PCE index. In other words, two more rate hikes in 2018 look very likely, and we expect four rate hikes in 2019. On the labor front, the employment index declined to 53.6 from 54.1 in May. Initial claims data, also out this morning, showed new claims for jobless benefits rose 3,000 last week to 231,000, while continuing claims increased 32,000 to 1.74 million. Meanwhile the ADP index reported private payrolls rose 177,000 in June. Plugging all of this labor market data into our model suggests tomorrow's employment report will show nonfarm payrolls rose a healthy 185,000 in June. In other recent news, automakers reported Tuesday that they sold cars and light trucks at a 17.4 million annual rate in June, up 3.3% from May, and up 4.6% from a year ago.

| Non-Manufacturing ISM Index<br>*Seasonally Adjusted Unless Noted* | Jun-18 | May-18 | Apr-18 | 3-month<br>*moving avg* | 6-month<br>*moving avg* | Year-ago<br>*level* |
|---|---|---|---|---|---|---|
| Composite Index | **59.1** | 58.6 | 56.8 | 58.2 | 58.8 | 57.2 |
| *Business Activity* | **63.9** | 61.3 | 59.1 | 61.4 | 61.3 | 60.7 |
| *New Orders* | **63.2** | 60.5 | 60.0 | 61.2 | 61.8 | 60.2 |
| *Employment* | **53.6** | 54.1 | 53.6 | 53.8 | 55.8 | 55.5 |
| *Supplier Deliveries (NSA)* | **55.5** | 58.5 | 54.5 | 56.2 | 56.3 | 52.5 |
| *Prices* | **60.7** | 64.3 | 61.8 | 62.3 | 61.9 | 53.3 |

*Source: Institute for Supply Management*