

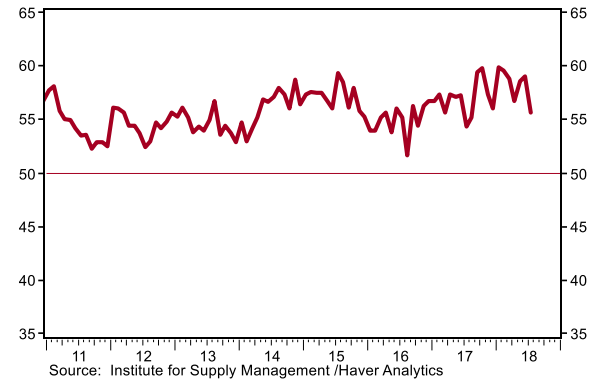
## July ISM Non-Manufacturing Index

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

- The ISM non-manufacturing index declined to 55.7 in July, well below the consensus expected 58.6. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in July, but all remain comfortably above 50, signaling expansion. The business activity index declined to 56.5 from 63.9 in June, while the new orders index fell to 57.0 from 63.2. The supplier deliveries index moved lower to 53.0 from 55.5 in June. The employment index rose to 56.1 from 53.6.
- The prices paid index rose to 63.4 from 60.7 in June.

**Implications:** If tariff-talk is causing some companies concern, it isn't stopping broad-based growth in the service sector. While the pace of growth slowed in July, the ISM non-manufacturing index reading of 55.7 remains comfortably in expansion territory. Sixteen of eighteen service sector industries reported growth in July, while two showed decline. The most forward-looking indices – new orders and business activity – showed the largest declines in July, but they are coming off elevated levels (including June's business activity reading that represented the fastest pace of growth since 2005), and provide no cause for concern. Given the continued healthy pace of activity, expect the service sector to continue humming along in the coming months. The supplier deliveries index also showed a decline in July, returning to more "normal" levels after a decade-high reading in May. That said, deliveries continue to be delayed due to driver shortages in freight trucking. These delays, paired with continued strength in new orders 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 inflation will continue to run above the Fed's 2% target, which has already been breached by all three key inflation measures – PPI, CPI, and the Fed's favored PCE index. When considered alongside the stronger wording in Wednesday's FOMC Statement, two more rate hikes in 2018 look very likely, and we expect four rate hikes in 2019. On the labor front, the employment index rose to 56.1 from 53.6 in June. That's in-line with this morning's employment report, which we analyze in more detail [here](#). Taken together, today's report on the service sector shows the boost in growth thanks to tax cuts and deregulation is continuing into the second half of 2018.

**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-18	Jun-18	May-18	3-month moving avg	6-month moving avg	Year-ago level
<b>Composite Index</b>	55.7	59.1	58.6	57.8	58.1	54.3
<b>Business Activity</b>	56.5	63.9	61.3	60.6	60.7	56.5
<b>New Orders</b>	57.0	63.2	60.5	60.2	60.8	55.7
<b>Employment</b>	56.1	53.6	54.1	54.6	54.8	54.1
<b>Supplier Deliveries (NSA)</b>	53.0	55.5	58.5	55.7	55.9	51.0
<b>Prices</b>	63.4	60.7	64.3	62.8	62.1	56.4

Source: Institute for Supply Management