

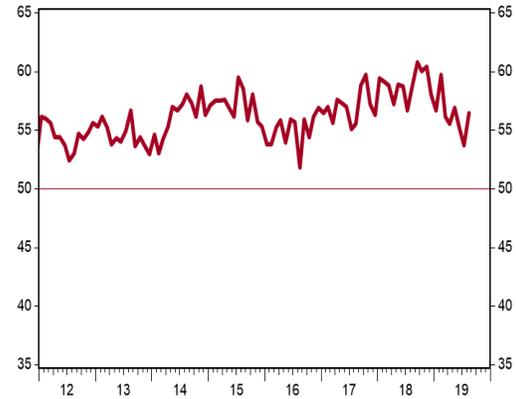
August ISM Non-Manufacturing Index

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- The ISM Non-Manufacturing index rose to 56.4 in August, beating the consensus expected 54.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in August, but all came in above 50, signaling growth. The business activity index jumped to 61.5 from 53.1 in July, while the new orders index rose to 60.3 from 54.1. The employment index declined to 53.1 from 56.2 in July, and the supplier deliveries index fell to 50.5 from 51.5.
- The prices paid index rose to 58.2 from 56.5 in July.

Implications: Today’s report from the service sector is a prime example of why you shouldn’t read too much into any one data release. On Tuesday, the ISM manufacturing index fell below 50 (levels below 50 signal contraction) for the first time in three years and the headlines blared that it was the sign of a looming recession. Just two days later, and we find the (much larger) service sector index easily beat even the most optimistic forecast from Bloomberg respondents in a healthy move higher. It’s hard to picture a sharper contrast in reports. The rise in the August non-manufacturing index was broad-based, with sixteen of eighteen industries reporting growth, while just one (wholesale trade) showed a decline. As companies begin to look toward the holiday season, the two most forward-looking indices - business activity and new orders - led the charge, both jumping back to readings in the 60s. The employment index moved lower to 53.1 from 56.2 in July, signaling continued growth in hiring but at a slower pace than in July, but this contrasts a bit with other data out on the labor market this morning. The ADP employment report showed private payroll gains of 195,000 in August (well above the consensus expected 148,000), while initial jobless claims rose 1,000 last week to 217,000, and continuing claims declined 39,000 to 1.662 million. Plugging this data into our models suggests nonfarm payroll gains of 170,000 from tomorrow’s August employment report, a slight pickup from July. The supplier deliveries index moved to 50.5 in August from 51.5 in July, signaling faster deliveries to companies. Respondents continue to report difficulties in lining up truck drivers, but that pressure has been partially eased by faster rail shipments. Price pressures, meanwhile, picked up in August, led higher by costs for dairy, electrical components, and fuel. Some of the upward pressure may be attributable to tariffs impacting the costs of goods imported from China, but as companies continue to shift production out of China, the magnitude of the impact that some predicted has been muted. In other recent news, automakers reported selling cars and light trucks at a 17.0 million annual rate in August, up 0.7% versus July, and also up 0.7% from a year ago. All of this helps bring perspective to what is really happening in the US economy, supporting the preponderance of data continuing to show steady economic growth. We honestly can’t understand why the media and pouting pundits so consistently skip the forest for the trees to aggrandize an outlier data point. Maybe fear sells, but it doesn’t make for sound investing.

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



Source: Institute for Supply Management/Haver Analytics

ISM Nonmanufacturing: Prices Index
 SA, 50+ = Economy Expanding



Source: Institute for Supply Management/Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Aug-19	Jul-19	Jun-19	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	56.4	53.7	55.1	55.1	55.6	58.8
Business Activity	61.5	53.1	58.2	57.6	58.5	61.3
New Orders	60.3	54.1	55.8	56.7	57.7	61.2
Employment	53.1	56.2	55.0	54.8	55.3	56.8
Supplier Deliveries (NSA)	50.5	51.5	51.5	51.2	50.9	56.0
Prices	58.2	56.5	58.9	57.9	57.2	62.5

Source: Institute for Supply Management