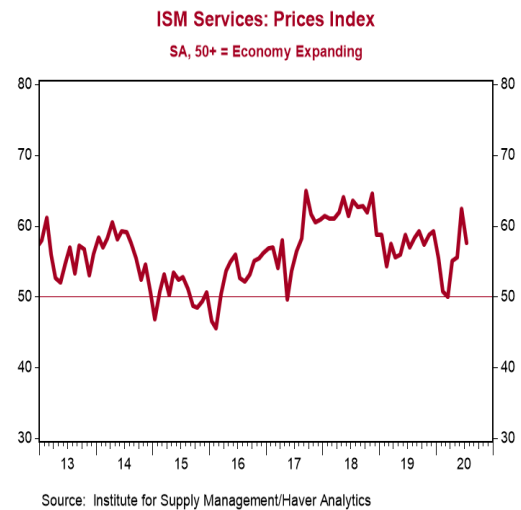
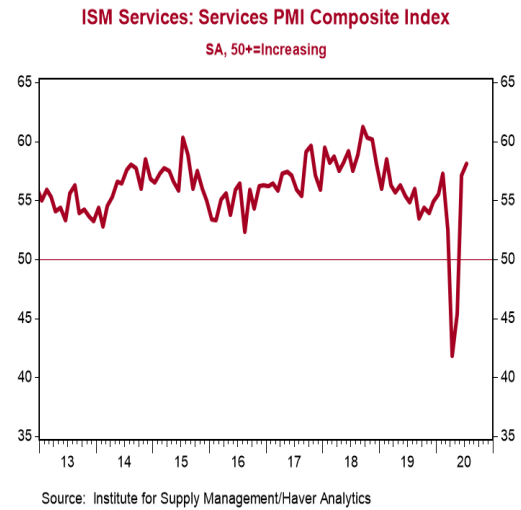


July ISM Non-Manufacturing Index

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

- The ISM Non-Manufacturing index rose to 58.1 in July, easily beating the consensus expected 55.0. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity were mixed in July. The new orders index surged to 67.7 from 61.6 in June, while the business activity index rose to 67.2 from 66.0. The employment index declined to 42.1 from 43.1 in June, and the supplier deliveries index moved lower to 55.2 from 57.5.
- The prices paid index declined to 57.6 from 62.4 in June.

Implications: Another surprise to the upside from the service sector, as the ISM Non-Manufacturing Index continued to climb following the largest single-month increase in series history back in June. The composite index stands comfortably in growth territory at 58.1 (remember, readings above 50 signal expansion), marking the highest level since early 2019. In total, fifteen of eighteen companies reported growth in July, while three reported contraction. The two most forward-looking indices – business activity and new orders – both rose again in July. New orders improved the most, up 6.1 points to a reading of 67.7, the highest mark for the new orders index in the series history dating back to the late 1990s. Business activity, up 1.2 points to 67.2 in July, recorded the second highest reading in series history, and the best mark in more than fifteen years. Two indices declined in July; supplier deliveries and employment. It’s worth noting that the supplier deliveries index increases when companies report longer delivery delays (typically a sign of more demand than companies can fill in a timely manner), so the continued decline in July means fewer delays. While supply chain disruptions and manufacturer back orders continue to result in longer lead times, deliveries are gradually moving in the right direction. The employment index continues to remain in contraction territory, and declined in July to 42.1 from 43.1 in June. While we do anticipate a slowdown in the pace of jobs growth when we get the employment report this Friday, we are currently forecasting two million nonfarm payroll jobs were added last month. With most states now on the downside of the curve in new confirmed COVID cases, progress in job gains look likely to continue for the foreseeable future. On the inflation front, the prices paid index declined to 57.6 from 62.4 in June. In other words, prices rose in July, but at a slower pace than in June. Cleaning products, medical supplies (like N95 masks), and construction contractors led the index higher. The data will likely remain volatile over the weeks and months ahead as the virus – and state responses – impact the ability for companies to operate. Cases look to have peaked and turned in the “second wave” states, but nobody knows with certainty where exactly things will go from here. What we do know is that our ability to identify, respond to, and treat cases as they arise continues to strengthen with each passing day.



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Jul-20	Jun-20	May-20	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	58.1	57.1	45.4	53.5	52.0	54.8
Business Activity	67.2	66.0	41.0	58.1	51.0	56.8
New Orders	67.7	61.6	41.9	57.1	53.4	55.3
Employment	42.1	43.1	31.8	39.0	41.6	55.7
Supplier Deliveries (NSA)	55.2	57.5	67.0	59.9	62.1	51.5
Prices	57.6	62.4	55.6	58.5	55.3	57.0

Source: Institute for Supply Management