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## May ISM Non-Manufacturing Index

- The ISM Non-Manufacturing index increased to 64.0 in May, beating the consensus expected 63.2 (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity were mixed in May, but all stand above 50, signaling growth. The business activity index rose to 66.2 from 62.7 in April, while the new orders index increased to 63.9 from 63.2. The supplier deliveries index rose to 70.4 from 66.1 in April, and the employment index fell to 55.3 from 58.8.
- The prices paid index rose to 80.6 from 76.8 in April.

**Implications:** An index of the growth rate in the service sector hit the highest level on record going back to 1997 in May as the US economy continued to benefit from the end of lockdowns and other economic restrictions around the country. The most dominant sector of the economy is off to a very strong start in the second quarter of 2021. Looking at the details, all eighteen industries reporting growth in May. Given the broad-based pickup in activity, it's little surprise that survey respondents' comments remain overwhelmingly positive, noting that widespread vaccination paired with consumers being flush with stimulus cash have led to a rapid recovery. This positive outlook helped push up the two most forward-looking indices – business activity and new orders – though both remained below the all-time highs set in March. That said, just as with the ISM manufacturing index report on Monday, respondents' comments were also peppered with worries about supply chain issues, rising input costs, and difficulty finding workers. These concerns were reflected in the numbers as well. First, the supplier deliveries index – which rises as companies report longer delays -- rose to 70.4 from 66.1 in April, the third highest reading going back to 1997. Second, upward pressure on prices was reflected in the prices paid index which jumped to 80.6 from 76.8 in April, the highest level since 2005. The details show that forty-five commodities were reported up in price (and twenty-seven were listed in short supply). Notably, labor was one of the commodities that was both rising in cost and in short supply, and the ongoing difficulty in finding staff led to a decline in the employment index, which fell to 55.3 from 58.8 in April. In other employment news this morning, the ADP employment report showed 978,000 private-sector jobs gained in May, beating the consensus expected 680,000. We also got jobless claims data this morning which showed initial claims fell 20,000 last week to 385,000 while continuing claims rose by 170,000 to 3.77 million. Adding this data into our model, we currently expect tomorrow's official employment report to show a nonfarm payroll gain of 672,000. Finally, data out yesterday showed that car and light truck sales fell 9.5% in May to a 16.98 million annual rate. Sales are up a massive 40.2% from a year ago during the early stages of the pandemic.

ISM Services: Services PMI Composite Index  
 SA, 50+=Increasing



Source: Institute for Supply Management/Haver Analytics

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



Source: Institute for Supply Management/Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	May-21	Apr-21	Mar-21	3-month moving avg	6-month moving avg	Year-ago level
<b>Composite Index</b>	<b>64.0</b>	62.7	63.7	63.5	60.4	45.4
<b>Business Activity</b>	<b>66.2</b>	62.7	69.4	66.1	62.4	41.2
<b>New Orders</b>	<b>63.9</b>	63.2	67.2	64.8	61.1	41.3
<b>Employment</b>	<b>55.3</b>	58.8	57.2	57.1	54.7	32.2
<b>Supplier Deliveries (NSA)</b>	<b>70.4</b>	66.1	61.0	65.8	63.2	67.0
<b>Prices</b>	<b>80.6</b>	76.8	74.0	77.1	72.0	56.4

Source: Institute for Supply Management