

May ISM Non-Manufacturing Index

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- The ISM non-manufacturing index increased to 56.3 in May, beating the consensus expected 55.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in May, and all remain at 50 or above. The business activity index jumped to 62.1 from 60.9 while the new orders index increased to 60.5 from 58.2. The employment index moved higher to 52.4 from 51.3 while the supplier deliveries index declined to 50.0 from 50.5.
- The prices paid index rose to 61.4 in May from 60.8 in April.

Implications: Today’s report on the service sector continues to show the rebound in economic growth and an upward move in inflation. Since hitting a four-year low in February, the ISM service sector has jumped to 56.3, signaling the fastest growth in nine months and showing expansion for a 52nd consecutive month. All 17 non-manufacturing industries surveyed reported growth in May. Paired with the strong ISM manufacturing report from Monday, it looks like production is bouncing back from the harsher than normal winter. The business activity index— which has a stronger correlation with economic growth than the overall index – rose 1.2 points in May to 62.1, the highest reading for the index in over three years. New orders continue to show strong gains, rising 2.3 in May and also reaching a three year high. After a drop in April, the employment index showed a slight bounce back to 52.4. While still below the average reading of 54.4 seen in 2013, we expect this measure to move higher in the coming months as companies hire more in response to better economic growth (which the business activity index is showing). On the inflation front, the prices paid index jumped to 61.4 in May from 60.8 in April. Still no sign of runaway inflation, but given loose monetary policy, we expect this measure to either stay elevated or even move upward over the coming year. Once again, we have a report showing the Plow Horse economy may be starting to trot.

ISM Nonmanufacturing: NMI Composite Index

SA, 50+=Increasing



ISM: Nonmfg: Prices Index

SA, 50+ = Econ Expand



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	May-14	Apr-14	Mar-14	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	56.3	55.2	53.1	54.9	53.9	54.0
Business Activity	62.1	60.9	53.4	58.8	56.9	57.0
New Orders	60.5	58.2	53.4	57.4	54.1	56.6
Employment	52.4	51.3	53.6	52.4	52.8	50.3
Supplier Deliveries (NSA)	50.0	50.5	52.0	50.8	51.6	52.0
Prices	61.4	60.8	58.3	60.2	57.7	54.4

Source: Institute for Supply Management