

## May ISM Non-Manufacturing Index

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- The ISM non-manufacturing index declined to 55.7 in May from 57.8, coming in below the consensus expected 57.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were lower in May, but all remain at or above 50, signaling expansion. The supplier deliveries index fell to 50.0 from 53.5 while the business activity index declined to 59.5 from 61.6. The employment index slipped to 55.3 from 56.7. The new orders index dipped to 57.9 from 59.2.
- The prices paid index rose to 55.9 in May from 50.1 in April.

**Implications:** Service sector activity through the first five months of 2015 has shown the strongest start to a year going back to 2006. Keep that in mind when you see headlines that the May reading of 55.7 is the slowest pace of growth in the last thirteen months. The ISM service sector report continued to show strength in May, signaling growth for a 64<sup>th</sup> consecutive month, and continues to signal robust activity in the months ahead. Of the eighteen industries reporting, fifteen showed growth in May while only one, mining, showed a decline. That’s not a surprise given the steep drop in energy prices since mid-2014. The business activity index, which has a stronger correlation with economic growth than the overall index, declined to a still robust 59.5, while the new orders index, the most forward looking measure of service sector activity, slipped to 57.9 in May. Remember, levels above 50 represent growth, so these still-elevated levels represent continued improvement in the service sector, just at a slightly slow pace than in recent months. We expect activity to remain strong over the coming months as companies move to fill the steady flow of new orders coming in. The employment index dipped in May to 55.3, as declines in mining and educational services offset rising employment in fourteen of the remaining sixteen industries. On the inflation front, the prices paid index spiked 5.8 points in May to 55.9, as companies reported a jump in fuel prices. Over the coming months, rising fuel costs will likely continue to be a key driver pushing prices higher. As a whole, today’s report is nothing to be concerned about and shouldn’t impact the Fed’s decision to raise rates when they meet later this month.

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



**ISM: Nonmfg: Prices Index**  
 SA, 50+ = Econ Expand



<b>Non-Manufacturing ISM Index</b> <i>Seasonally Adjusted Unless Noted</i>	<b>May-15</b>	<b>Apr-15</b>	<b>Mar-15</b>	<b>3-month moving avg</b>	<b>6-month moving avg</b>	<b>Year-ago level</b>
<b>Composite Index</b>	<b>55.7</b>	57.8	56.5	56.7	56.7	56.1
<b>Business Activity</b>	<b>59.5</b>	61.6	57.5	59.5	59.7	61.1
<b>New Orders</b>	<b>57.9</b>	59.2	57.8	58.3	58.4	59.9
<b>Employment</b>	<b>55.3</b>	56.7	56.6	56.2	55.4	53.2
<b>Supplier Deliveries (NSA)</b>	<b>50.0</b>	53.5	54.0	52.5	53.2	50.0
<b>Prices</b>	<b>55.9</b>	50.1	52.4	52.8	50.6	60.2

Source: Institute for Supply Management