

## August ISM Non-Manufacturing Index

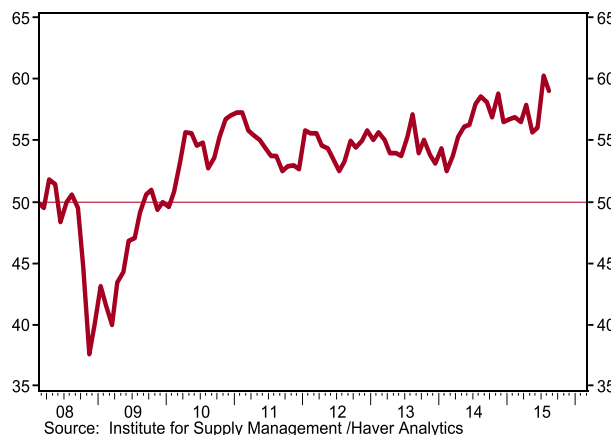
Brian S. Wesbury – Chief Economist  
Robert Stein, CFA – Dep. Chief Economist  
Strider Elass – Economist

- The ISM non-manufacturing index declined to 59.0 in August from 60.3, coming in above the consensus expected 58.2. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all lower in August, but most remain well above 50, signaling expansion. The employment index fell to 56.0 from 59.6 while the business activity index declined to 63.9 from 64.9. The supplier deliveries activity index moved lower to 52.5 from 53.0, and the new orders index slipped to 63.4 from 63.8.
- The prices paid index declined to 50.8 in August from 53.7 in July.

**Implications:** This morning's ISM services report for August could be reported as a slowdown from July, or, it could be reported as the second highest reading for the index going back to 2005. These indices are hard to read because we believe sentiment plays a role in the answers to survey questions, but it is clear that the services sector, which is much larger than the manufacturing sector, continues to show strength. Through the first eight months of the year, service sector activity is stronger than it was in the same period a year ago, while August's reading also represents a 67th consecutive month of expansion. Of the eighteen industries reporting, fifteen showed growth in August, while only one, mining (which includes oil and gas extraction), reported contraction - two industries reported no change. The business activity index, which has a stronger correlation with economic growth than the overall index, fell to a still robust 63.9, while the new orders index, the most forward looking measure of service sector activity moved lower to 63.4. Expect activity to remain strong over the coming months as companies move to fill the steady flow of new orders coming in. Both the business activity and new orders indexes showed acceleration from the first quarter to the second (coming off the bitter winter and West Coast port strikes), and the growth trend has continued through the first two months of Q3. The employment index fell in August to a still respectable 56.0, as declines led by mining more than offset rising employment in the majority of the reporting industries. On the inflation front, the prices paid index dipped in August to 50.8, led lower by (you guessed it) mining. As a whole, today's report suggests continued growth in the months ahead and an uptick in activity for the second half of 2015.

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>	Aug-15	Jul-15	Jun-15	3-month moving avg	6-month moving avg	Year-ago level
<b>Composite Index</b>	59.0	60.3	56.0	58.4	57.6	58.6
<b>Business Activity</b>	63.9	64.9	61.5	63.4	61.5	63.1
<b>New Orders</b>	63.4	63.8	58.3	61.8	60.1	62.1
<b>Employment</b>	56.0	59.6	52.7	56.1	56.2	56.6
<b>Supplier Deliveries (NSA)</b>	52.5	53.0	51.5	52.3	52.4	52.5
<b>Prices</b>	50.8	53.7	53.0	52.5	52.7	57.3

Source: Institute for Supply Management