

Brian S. Wesbury – Chief Economist  
 Robert Stein, CFA – Senior Economist  
 Strider Elass – Economic Analyst  
 Andrew Hull – Economic Analyst

## August ISM Non-Manufacturing Index

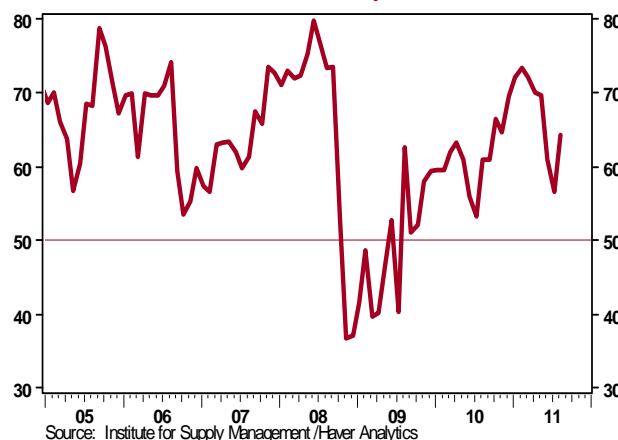
- The ISM non-manufacturing composite index increased to 53.3 in August, beating the consensus expected decline to 51.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- Key sub-indexes were mixed in August, but all remain at levels indicating economic growth. The new orders index rose to 52.8 from 51.7 and the supplier deliveries index gained to 53.0 from 50.5 last month. The business activity index fell to a still strong 55.6 in August from 56.1 in July and the employment index fell to 51.6 from 52.5.
- The prices paid index rose to an elevated 64.2 in August from 56.6 in July.

**Implications:** Today's report on the service sector was a pleasant surprise! The stock market has been volatile of late and many are concerned about financial turmoil in Europe. As a result, the consensus expected the ISM non-manufacturing index to decline to 51.0 from 52.7 in July. This seemed to make sense as the index sometimes reflects the vagaries of business sentiment rather than actual levels of service sector output. Instead, the index climbed to a respectable 53.3 and all the major sub-components of the index were above 50, signaling continued economic expansion. Sentiment among managers may not be as dour as thought, a positive sign going forward. Looking deeper into the report, the business activity index, which has a stronger correlation with GDP growth than the overall index, came in at a still strong 55.6 in August. In addition, a composite that combines the ISM manufacturing and service indexes increased in August to 53.0 from 52.5 in July. This is simply not consistent with a recession and supports the case from "high-frequency" data that the US economy continues to grow, including unemployment claims, chain store sales, railcar loadings, auto sales, and box office receipts. On the inflation front, the prices paid index rose to an elevated 64.2 in August. We believe quantitative easing was a mistake and any more would be an even bigger mistake. Monetary policy is extremely loose, and no further monetary action is warranted. Inflation is already creeping upward.

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-11	Jul-11	Jun-11	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Composite Index</b>	<b>53.3</b>	52.7	53.3	53.1	54.0	52.8
<b>Business Activity</b>	<b>55.6</b>	56.1	53.4	55.0	55.4	55.8
<b>New Orders</b>	<b>52.8</b>	51.7	53.6	52.7	55.3	55.0
<b>Employment</b>	<b>51.6</b>	52.5	54.1	52.7	53.0	49.5
<b>Supplier Deliveries (NSA)</b>	<b>53.0</b>	50.5	52.0	51.8	52.3	51.0
<b>Prices</b>	<b>64.2</b>	56.6	60.9	60.6	65.6	60.9

Source: Institute for Supply Management