

## July ISM Non-Manufacturing Index

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

- The ISM non-manufacturing index increased to 52.6 in July, beating the consensus expected 52.1. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were mixed in July. The business activity index surged to 57.2 in July from 51.7 and the new orders index rose to 54.3 from 53.3. The supplier deliveries index declined to 49.5 from 51.0 and the employment index fell to 49.3 from 52.3.
- The prices paid index rose to 54.9 in July from 48.9 in June.

**Implications:** After hitting some clay in the second quarter, the plow horse economy is picking up a little speed in Q3. The ISM services index came in higher than the consensus expected in July, signaling a combination of some acceleration in that sector and an abatement of negative sentiment regarding Europe. The best news in the ISM services report is that the sub-index for business activity – which has a stronger correlation with economic growth than the overall index – spiked higher by 5.5 points to 57.2, more than fully rebounding from last month’s decline. However, the report did contain some disappointing news, too. The employment index fell to 49.3 from 52.3, the first reading below 50 so far this year. We would take this with a grain of salt, though, considering the job gains in today’s employment report. On the inflation front, the prices paid index rose to 54.9, a rebound from the last two monthly readings, which were below 50. This is consistent with our view that the recent lull in inflation is temporary given the loose stance of monetary policy. In other recent news, new claims for unemployment insurance increased 8,000 last week to 365,000, almost exactly matching the four-week moving average of 365,500. Continuing claims for regular state benefits declined 19,000 to 3.27 million. In still other news, autos and light trucks were sold at a 14.1 million annual rate in July, 2% below June but up 13.6% from a year ago.

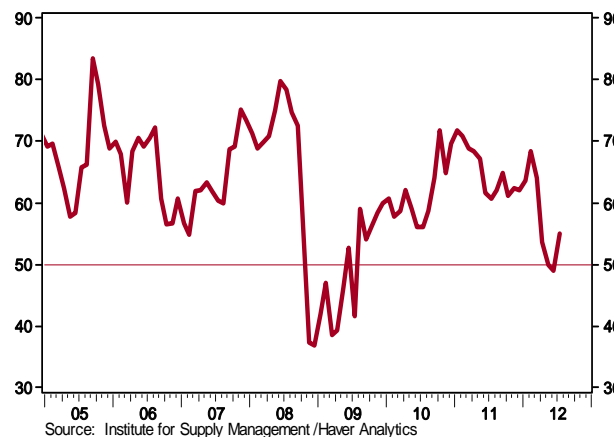
ISM Nonmanufacturing: NMI Composite Index

SA, 50+=Increasing



ISM: Nonmfg: Prices Index

SA, 50+ = Econ Expand



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Jul-12	Jun-12	May-12	3-month moving avg	6-month moving avg	Year-ago level
<b>Composite Index</b>	<b>52.6</b>	52.1	53.7	52.8	54.2	53.4
<b>Business Activity</b>	<b>57.2</b>	51.7	55.6	54.8	56.8	57.2
<b>New Orders</b>	<b>54.3</b>	53.3	55.5	54.4	56.1	53.3
<b>Employment</b>	<b>49.3</b>	52.3	50.8	50.8	53.2	52.7
<b>Supplier Deliveries (NSA)</b>	<b>49.5</b>	51.0	53.0	51.2	50.7	50.5
<b>Prices</b>	<b>54.9</b>	48.9	49.8	51.2	56.6	60.6

Source: Institute for Supply Management