

August ISM Non-Manufacturing Index

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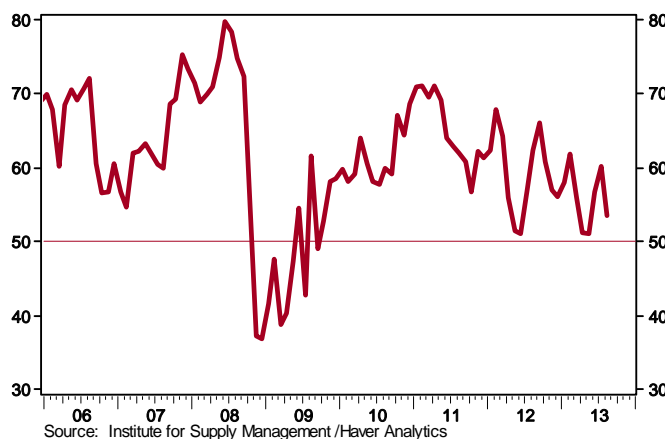
- The ISM non-manufacturing index rose to 58.6 in August, coming in well above the consensus expected 55.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were all higher in August, and all remain above 50. The new orders index rose to 60.5 from 57.7 and the business activity index increased to 62.2 from 60.4 while the supplier deliveries index gained to 54.5 in August from 52.5. The employment index rose to 57.0 from 53.2.
- The prices paid index declined to 53.4 in August from 60.1 in July.

Implications: The ISM service report exploded higher in August, beating the forecast from all of the 84 economics groups that made a prediction and coming in at the highest level since December 2005. The business activity index, – which has a stronger correlation with economic growth than the overall index – boomed to 62.2, while the new orders index also showed notable growth to 60.5. Even the employment index showed strong growth to 57.0. We expect this measure to remain at elevated levels 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 fell to 53.4 in August from 60.1 in July. Given loose monetary policy, we expect this measure to move upward over the coming year. In other recent news, Americans bought cars and light trucks at a 16.1 million annual rate in August, an increase of 1.8% over July, 11.1% versus a year ago, and the fastest pace since September 2007. Pessimistic analysts have been touting the end of the payroll tax cut and the federal spending sequester as reasons to expect weaker economic growth. But the truth, from looking at the data so far, is little to no significant impact from these events on the consumer or economy, and we do not think there will be. What we have here is a Plow Horse Economy that looks like it 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>	Aug-13	Jul-13	Jun-13	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	58.6	56.0	52.2	55.6	54.7	54.3
Business Activity	62.2	60.4	51.6	58.1	57.0	56.3
New Orders	60.5	57.7	52.9	57.0	56.0	55.6
Employment	57.0	53.2	55.1	55.1	53.5	53.9
Supplier Deliveries (NSA)	54.5	52.5	51.5	52.8	52.4	51.5
Prices	53.4	60.1	56.8	56.8	54.8	62.3

Source: Institute for Supply Management