

August ISM Non-Manufacturing Index

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- The ISM non-manufacturing index increased to 59.6 in August, easily beating the consensus expected 57.7. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in August, and all remain above 50. The business activity index jumped to 65.0 from 62.4 while the employment index increased to 57.1 from 56.0. The supplier deliveries index moved higher to 52.5 from 51.5. The new orders index dipped to 63.8 from 64.9.
- The prices paid index declined to 57.7 in August from 60.9 in July.

Implications: Another strong reading from the service sector as the ISM services index jumped to 59.6 in August, beating the forecast from all 74 economic groups that made a prediction and coming in at the highest reading since August 2005. The ISM service sector has now shown expansion for a 55th consecutive month. Paired with the strong ISM manufacturing report from Tuesday, it's clear the economy is continuing to bounce back from the harsher than normal winter that slowed activity at the start of the year. The business activity index – which has a stronger correlation with economic growth than the overall index – rose 2.6 points in August to 65.0, the highest reading for the index in close to ten years. New orders dipped slightly, but remain at a very robust reading of 63.8, suggesting production should continue to pick up in the months ahead. After the drop back in April, the employment index has expanded for each of the past four months and, with this month's reading of 57.1, has moved above the average reading of 56.5 seen over the past five years. As employment continues to expand, expect income growth to boost consumer spending and business revenue, which, in turn, will help support even more job growth in the future. In other words, the growth in the economy is self-sustaining and should remain that way until monetary policy gets tight, which is at least a few years away. On the inflation front, the prices paid index dropped to a still elevated 57.7 in August from 60.9 in July. No sign of runaway inflation, but given loose monetary policy, we expect this measure to either stay elevated or move upward over the coming year. Once again, we have a report showing the Plow Horse economy may be starting to trot. In other recent news, Americans bought cars at a 17.5 million annual rate in August, much higher than the consensus expected and the fastest pace since January 2006. Sales were up 6.4% versus July and up 10% from a year ago. These figures suggest a strong rebound in retail sales in August after no change in July.

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-14	Jul-14	Jun-14	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	59.6	58.7	56.0	58.1	56.5	57.9
Business Activity	65.0	62.4	57.5	61.6	60.2	61.0
New Orders	63.8	64.9	61.2	63.3	60.3	59.7
Employment	57.1	56.0	54.4	55.8	54.1	56.3
Supplier Deliveries (NSA)	52.5	51.5	51.0	51.7	51.3	54.5
Prices	57.7	60.9	61.2	59.9	60.1	53.6

Source: Institute for Supply Management