

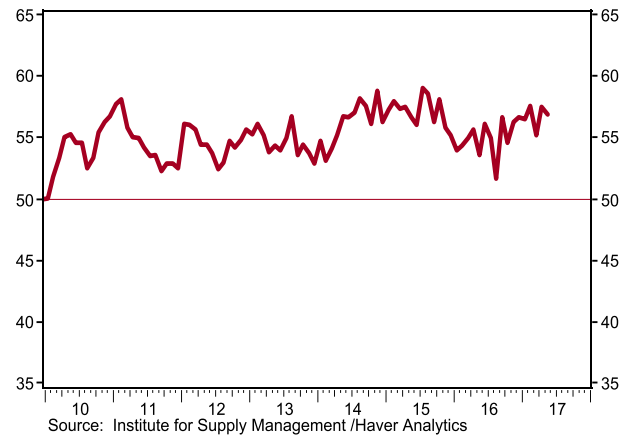
May ISM Non-Manufacturing Index

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

- The ISM non-manufacturing index declined to 56.9 in May, coming in below the consensus expected 57.1. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in May, but all stand above 50, signaling expansion. The new orders index declined to 57.7 from 63.2 in April, while the business activity index fell to 60.7 from 62.4. The supplier deliveries index moved lower to 51.5 from 53.0 in April. The employment index rose to 57.8 from 51.4.
- The prices paid index declined to 49.2 from 57.6 in April.

Implications: Service sector activity continued to hum along in May, though at a slightly slower pace than in April. Despite the modest slowdown, there is plenty to be happy about in today’s report. For starters, seventeen of eighteen industries reported growth in May, while just one, educational services, reported contraction. And while the most forward looking indexes – new orders and business activity – showed the largest pare back in the pace of growth in May, both remain comfortably in expansion territory, suggesting growth will continue in the months ahead. As we have said before, monthly data can be volatile, it’s the trend that matters, and the trend is pointing to continued growth across sectors. The employment index was the sole major measure to rise in May, matching the largest monthly increase for the employment index since the series began in the late ‘90’s. Despite the disappointing jobs report out last Friday – due more to an anomaly in the week the survey took place than any true signal of labor market health - today’s report echoes the major measures of labor market activity which continue to point towards healthy jobs gains. On the inflation front, the prices paid index fell below 50 for the first time in more than a year, despite twenty commodities rising in price while just five, led by bacon, showed declines. It’s important to remember that a reading of 50 is neutral, so May’s 49.2 reading on prices represents almost no change following thirteen consecutive months of higher prices. In full, the ISM services report paints a positive picture of a growing economy. In other news this morning, nonfarm productivity was unchanged (from a prior estimate of a 0.6% decline) in the first quarter of 2017, and is up 1.2% in the past year. Meanwhile labor costs were revised lower to a 2.2% increase from the 3.0% previously estimated. In the manufacturing sector, productivity increased 0.5%, while labor costs rose 2.4%. As the labor market continues to tighten, expect firms to push more aggressively for efficiency improvements. In the meantime, we hope the BLS works on improving their measurement of productivity growth which does little to capture the free benefits from innovations like apps that improve quality of life but, because they are free, they are not directly included in the productivity statistics.

ISM Nonmanufacturing: NMI Composite Index
 SA, 50+=Increasing



ISM Nonmanufacturing: Prices Index
 SA, 50+ = Economy Expanding



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	May-17	Apr-17	Mar-17	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	56.9	57.5	55.2	56.5	56.7	53.6
Business Activity	60.7	62.4	58.9	60.7	61.1	56.0
New Orders	57.7	63.2	58.9	59.9	60.1	54.8
Employment	57.8	51.4	51.6	53.6	53.9	50.9
Supplier Deliveries (NSA)	51.5	53.0	51.5	52.0	51.8	52.5
Prices	49.2	57.6	53.5	53.4	55.5	54.7

Source: Institute for Supply Management