First Trust DATAWATCH

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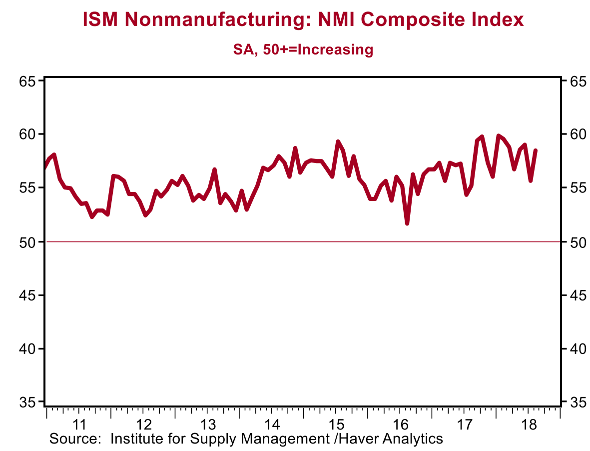
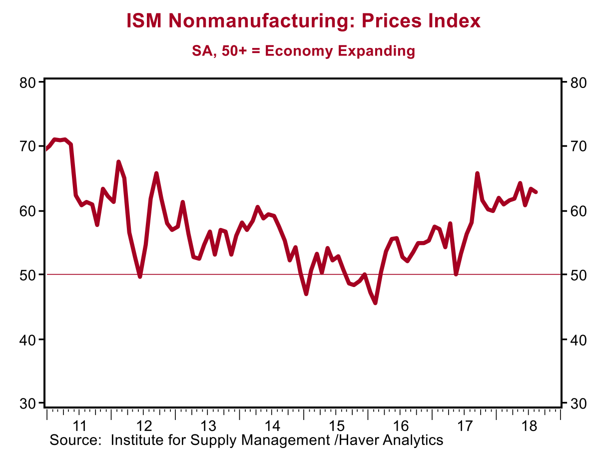
August ISM Non-Manufacturing Index

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

- The ISM non-manufacturing index rose to 58.5 in August, well above the consensus expected 56.8. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all higher in August, and all remain comfortably above 50, signaling expansion. The business activity index jumped to 60.7 from 56.5 in July, while the new orders index rose to 60.4 from 57.0. The supplier deliveries index increased to 56.0 from 53.0 in July, and the employment index moved higher to 56.7 from 56.1.
- The prices paid index declined to 62.8 from 63.4 in July.

Implications: On the tails of Tuesday's scorching report from the manufacturing sector, today's service sector data followed suit. And the details of the report are even better than the headline. Sixteen of eighteen service sector industries reported growth in August, while just one showed decline. The most forward-looking indices – new orders and business activity – showed the largest increases in August (with business activity also showing the second largest one-month increase since 2014). Given the continued healthy pace of both orders and activity, expect the service sector to continue humming along in the coming months. The supplier deliveries index also showed a large increase in August, following a decline in July. Deliveries continue to be delayed largely due to driver shortages in freight trucking. These delays, paired with continued strength in new orders, are putting upward pressure on prices that looks likely to remain over the intermediate term. While this is not a sign that prices are going to soar any time soon, it does suggest inflation will continue to run above the Fed's 2% target, which has already been breached by all three key inflation measures – PPI, CPI, and the Fed's favored PCE index. Look for stronger wording in the Fed statement to accompany a rate hike when the FOMC meets at the end of the month. On the labor front, the employment index rose to 56.7 from 56.1 in July. In other employment news this morning, initial jobless claims fell 10,000 last week to 203,000, the lowest reading since December 1969. Meanwhile, continuing claims fell 3,000 to 1.71 million. That said, the ADP employment report also released this morning showed a private payroll gain of 163,000 in August, falling short of the consensus expected increase of 200,000. Given this data, and the reasoning we laid out in this week's MMO, we are forecasting a below-consensus 166,000 nonfarm jobs added in August. If we are right - and we would love to be proven wrong with a better-than-expected report – pay no heed to the pouting pundits that will doubtless come out in force. A tepid August employment report has become a bit of a norm in recent years, and doesn't change our outlook on the strength of the US economy one bit.





Non-Manufacturing ISM Index *Seasonally Adjusted Unless Noted*	Aug-18	Jul-18	Jun-18	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	**58.5**	55.7	59.1	57.8	57.9	55.2
Business Activity	**60.7**	56.5	63.9	60.4	60.4	57.9
New Orders	**60.4**	57.0	63.2	60.2	60.1	56.3
Employment	**56.7**	56.1	53.6	55.5	55.1	56.1
Supplier Deliveries (NSA)	**56.0**	53.0	55.5	54.8	56.0	50.5
Prices	**62.8**	63.4	60.7	62.3	62.4	58.1

Source: Institute for Supply Management

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