

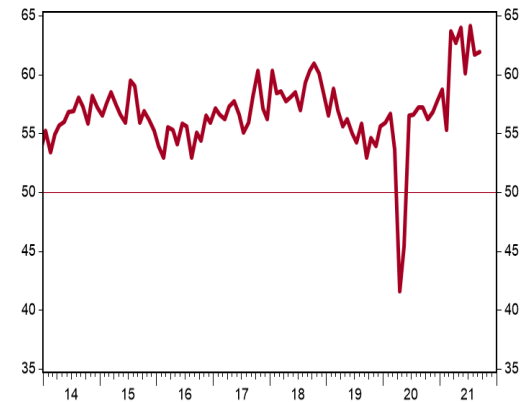
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September ISM Non-Manufacturing Index

- The ISM Non-Manufacturing index increased to 61.9 in September, beating the consensus expected 59.9. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity moved mostly higher in September, and all stand above 50, signaling growth. The business activity index rose to 62.3 from 60.1, while the new orders index increased to 63.5 from 63.2. The supplier deliveries index fell to 68.8 from 69.6, and the employment index ticked down to 53.0 from 53.7.
- The prices paid index rose to 77.5 from 75.4 in August.

Implications: Despite an unprecedented number of hurdles, the service sector surprised to the upside for the month and remains close to the record rate set earlier this Summer in July. Gains were broad-based, with seventeen of eighteen industries reporting growth. The two most forward-looking indices, business activity and new orders, both increased in September, and remain above 60, signaling strong growth. It's clear the service sector would be expanding even more rapidly if it weren't for a slew of factors holding back output. Respondent comments cited a wide breadth of logistic constraints, such as transportation bottlenecks, longer lead times and repetitive price increases for inputs, as well as difficulty retaining critical staff for operation. The problems listed above are undoubtedly the cost of government-mandated lockdowns and intervention in response to the COVID-19 pandemic (for more on the cost of lockdowns, see our most recent [Monday Morning Outlook](#)). These issues can be clearly seen in the supplier deliveries index, which declined slightly from the pace in August, but remains at a still very elevated 68.8, signaling longer wait times. Comments mentioned port backlogs as a main issue, with one notably saying they do not expect this to improve for another 12 to 18 months. In turn, business have further had to rely on drawing down their inventories, as the inventories index declined to 46.1 and remains in contraction territory for the fourth consecutive month. Rising input costs were reflected in the prices paid index, where all eighteen industries reported an increase in prices paid during the month of September. Looking at the details, only three commodities were reported lower in price while thirty were reported up. Hiring in the service sector still showed progress in August, declining slightly, but remaining well in expansion territory at 53.0. Notably, labor remains one of the commodities both rising in cost and listed in short supply. With overly generous federal pandemic unemployment benefits officially coming to an end in September, look for labor constraints to start dissipating as the service sector fights to meet increasing demand.

ISM Services: Services PMI Composite Index
 SA, 50+=Increasing



Source: Institute for Supply Management/Haver Analytics

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



Source: Institute for Supply Management/Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Sep-21	Aug-21	Jul-21	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	61.9	61.7	64.1	62.6	62.4	57.2
Business Activity	62.3	60.1	67.0	63.1	63.1	62.8
New Orders	63.5	63.2	63.7	63.5	63.3	61.4
Employment	53.0	53.7	53.8	53.5	54.0	49.8
Supplier Deliveries (NSA)	68.8	69.6	72.0	70.1	69.2	55.0
Prices	77.5	75.4	82.3	78.4	78.7	58.0

Source: Institute for Supply Management