

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

## June ISM Non-Manufacturing Index

- The ISM Non-Manufacturing index missed the consensus forecast and declined, but remained at a still strong 60.1 in June. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity all moved lower in June, but most remained above 50, signaling growth. The business activity index fell to 60.4 from 66.2, while the new orders index declined to 62.1 from 63.9. The employment index moved lower to 49.3 from 55.3 in June, and the supplier deliveries index fell to 68.5 from 70.4.
- The prices paid index fell slightly to 79.5 from 80.6 in June.

**Implications:** The service sector continued to expand rapidly in June, although at a slower pace than the record-setting clip in May. Looking at the details, sixteen of eighteen industries reported growth in June, with only two reporting declines. Survey respondent comments echoed an increasingly common theme in the post-pandemic recovery: strong consumer demand fueled by widespread vaccination and easing COVID restrictions held back by supply-chain disruptions, rising input prices, and difficulty finding new workers. A respondent from the accommodations & food service industry put it best, noting “Our restaurants are quickly — maybe too quickly — returning to 2019 sales levels. Strong consumer demand for dining out is clearly evident as COVID-19 restrictions ease, but the challenges are supply chain outages, logistics delays and employee- and management-staffing constraints. Some locations cannot open for business or (have) limited hours, as we cannot staff the restaurant to meet consumer demand.” These issues were reflected in the numbers as well. First, the supplier deliveries index remains elevated at 68.5 in June, while the backlog of orders index shot up to 65.8 from 61.1, hitting the highest reading for the series since it began in 1997. Second, upward pressure on prices was reflected in the prices paid index, which declined slightly but remains just off the highest level in more than a decade. The details show that thirty-three commodities were reported up in price while five were listed down in price. Twenty-one were listed in short-supply. Notably, labor was one of the commodities that was both rising in cost and in short supply. The shortage in labor (caused by excessively generous unemployment benefits) helps explain the decline in the employment index to 49.3, the first reading in contraction territory since December. We anticipate employment activity will rise in the second half of 2021, as benefits expire. The two most forward-looking indices – business activity and new orders – both posted declines in the month of June. However, measures of both current production and new orders are above 60, indicating very strong demand for services. It’s clear the service sector would be expanding even more rapidly if it weren’t for the above-mentioned factors holding back output.

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>	Jun-21	May-21	Apr-21	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Composite Index</b>	<b>60.1</b>	64.0	62.7	62.3	60.8	56.5
<b>Business Activity</b>	<b>60.4</b>	66.2	62.7	63.1	62.4	63.9
<b>New Orders</b>	<b>62.1</b>	63.9	63.2	63.1	61.7	61.8
<b>Employment</b>	<b>49.3</b>	55.3	58.8	54.5	54.8	42.7
<b>Supplier Deliveries (NSA)</b>	<b>68.5</b>	70.4	66.1	68.3	64.1	57.5
<b>Prices</b>	<b>79.5</b>	80.6	76.8	79.0	74.5	62.1

Source: Institute for Supply Management