

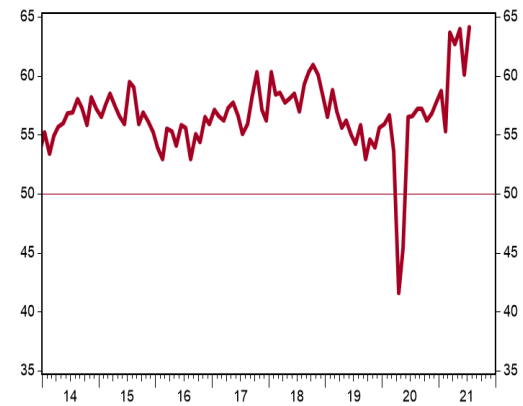
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## July ISM Non-Manufacturing Index

- The ISM Non-Manufacturing index increased to 64.1 in July, beating the consensus expected 60.5. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity all moved higher in July and all stand above 50, signaling growth. The business activity index rose to 67.0 from 60.4, while the new orders index increased to 63.7 from 62.1. The supplier deliveries index rose to 72.0 from 68.5 in July, and the employment index increased to 53.8 from 49.3.
- The prices paid index rose to 82.3 from 79.5 in June.

**Implications:** An index of the growth rate in the service sector hit the highest level on record going back to 1997 in July, surpassing the previous record set in May and signaling a strong recovery for the sector that was hit the hardest during the COVID pandemic. Given the record high, it's surprising to see that survey comments were largely negative, listing rising input costs, supply chain disruptions, and difficulty filling open positions, even after raising wages, as concerns. That said, supply chain and labor bottlenecks were not enough to stifle very strong demand in the service sector. Looking at the details of the report, seventeen of eighteen industries reported growth in July, with Agriculture, Forestry, Fishing & Hunting reporting no change. The two most forward-looking indices, business activity and new orders, both posted strong gains in July. The business activity index shot up to 67.0 from 60.4 June and remains just below the record reading set in March. However, it is likely orders and activity would be even higher if it weren't for supply chain and labor issues. These issues were reflected in the numbers as well. First, the supplier deliveries index rose to 72.0, while the backlog of orders index remains at an elevated 63.5. Second, upward pressure on prices was reflected in the prices paid index, which rose to 82.3 and is at the highest level in more than a decade. The details show that twenty-nine commodities were reported up in price while three were listed as down. Eighteen were listed in short-supply. Notably, labor was one of the commodities that was both rising in cost and in short supply. Hiring in the service sector still showed progress in July, as the employment index moved back into expansion territory to 53.8 from 49.3 in June. In other employment news this morning, the ADP employment report showed 330,000 private-sector jobs gained in July. Plugging this report into our models suggests Friday's official jobs report will show a nonfarm payroll gain of 833,000. In other recent news, car and light truck sales fell 4.1% in July to a 14.75 million annual rate, although sales are up 0.3% from a year ago. The key hurdle to auto sales remains supply constraints, largely related to a lack of computer chips. Look for that problem to ease over the next year, resulting in a faster pace of sales.

**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

<b>Non-Manufacturing ISM Index</b> <i>Seasonally Adjusted Unless Noted</i>	<b>Jul-21</b>	<b>Jun-21</b>	<b>May-21</b>	<b>3-month moving avg</b>	<b>6-month moving avg</b>	<b>Year-ago level</b>
<b>Composite Index</b>	<b>64.1</b>	60.1	64.0	62.7	61.7	56.6
<b>Business Activity</b>	<b>67.0</b>	60.4	66.2	64.5	63.5	63.8
<b>New Orders</b>	<b>63.7</b>	62.1	63.9	63.2	62.0	64.8
<b>Employment</b>	<b>53.8</b>	49.3	55.3	52.8	54.5	42.6
<b>Supplier Deliveries (NSA)</b>	<b>72.0</b>	68.5	70.4	70.3	66.5	55.3
<b>Prices</b>	<b>82.3</b>	79.5	80.6	80.8	77.5	57.6

Source: Institute for Supply Management