

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

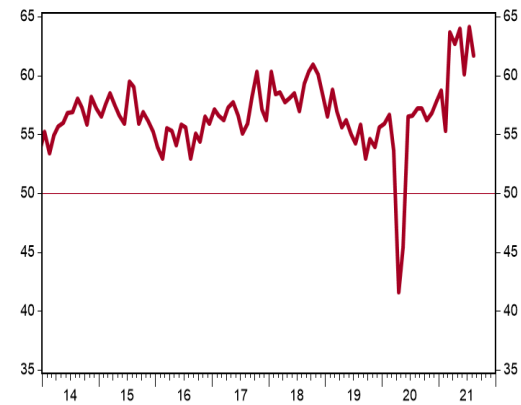
August ISM Non-Manufacturing Index

- The ISM Non-Manufacturing index declined to 61.7 in August, above the consensus expected 61.6. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity all moved lower in August, but all stand above 50, signaling growth. The business activity index fell to 60.1 from 67.0, while the new orders index declined to 63.2 from 63.7. The supplier deliveries index fell to 69.6 from 72.0, and the employment index ticked down to 53.7 from 53.8.
- The prices paid index fell to 75.4 from 82.3 in July.

Implications: An index of the growth rate in the service sector continued to expand rapidly in August, although at a slightly slower pace than the record-setting clip 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 declined in August, but remain above 60, signaling strong growth. Despite remaining near historical highs, it's clear the service sector would be expanding even more rapidly if it weren't for a slew of factors holding back output. Nearly all respondent comments fixated on concerns over supply chain disruptions, including labor shortages, logistic delays, and lack of materials to make products. These issues have all come together to prevent service activity from rising quickly enough to meet the explosion of demand that has come as the sector that was hit the hardest during the COVID pandemic reopens. Despite these continued issues, plenty of good news can be found in today's report. First, the supplier deliveries index, which rises when companies report longer delivery delays, declined to 69.6 from 72.0 in July. Second, the backlog of orders index continued to decline in August to 61.3 after peaking at its all-time high in June. Third, the prices paid index showed improvement as well, declining to 75.4 from 82.3 in July. These together signal a step in the right direction, as companies adapt and iron out supply chain disruptions in order to meet strong demand for services. Hiring in the service sector still showed progress in August, declining slightly, but remaining well in expansion territory at 53.7. Notably, labor remains one of the commodities both rising in cost and listed in short supply. The ongoing difficulty in finding staff in the service sector can be seen clearly in the slowdown in job growth in [August's employment report](#), where the weakness was largely concentrated in restaurants & bars, and was likely affected by the Delta variant as well as difficulty getting the unemployed to take jobs while college-age workers are going back to school. The growth in service sector remains strong. There are still plenty of issues and we do not expect it to move in a straight line, but things should continue to improve as we move farther into the year, as overly generous unemployment benefits expire and supply chain pressures ease.

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>	Aug-21	Jul-21	Jun-21	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	61.7	64.1	60.1	62.0	62.7	57.2
Business Activity	60.1	67.0	60.4	62.5	64.3	62.6
New Orders	63.2	63.7	62.1	63.0	63.9	58.5
Employment	53.7	53.8	49.3	52.3	54.7	47.4
Supplier Deliveries (NSA)	69.6	72.0	68.5	70.0	67.9	60.5
Prices	75.4	82.3	79.5	79.1	78.1	63.4

Source: Institute for Supply Management