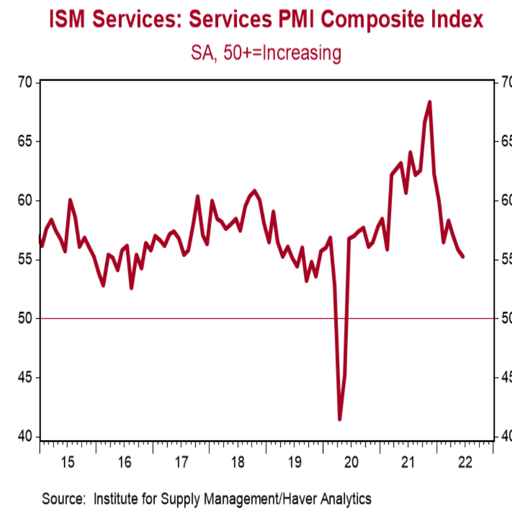
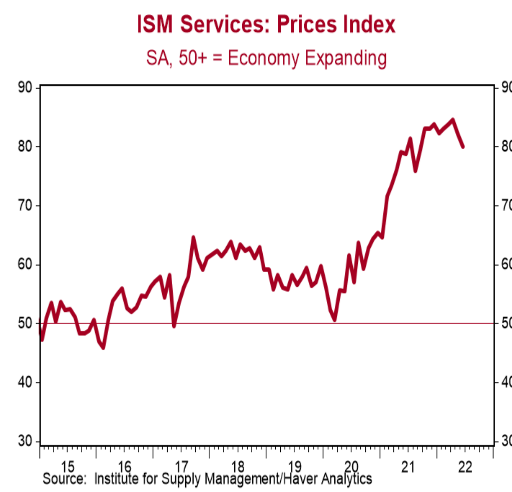
July 6, 2022 • 630.517.7756 • www.ftportfolios.com

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

June ISM Non-Manufacturing Index

- The ISM Non-Manufacturing index declined to 55.3 in June, beating the consensus expected 54.0. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity were mixed in June, but nearly all stand above 50, signaling growth. The business activity index rose to 56.1 from 54.5, while the new orders index declined to 55.6 from 57.6. The employment index fell to 47.4 from 50.2, while the supplier deliveries index ticked up to 61.9 from 61.3.
- The prices paid index declined to 80.1 in June from 82.1 in May.





Implications: The service sector continued to expand in June, with all 18 industries reporting growth. Yes, the headline index came in slightly lower than last month's reading of 55.9, but it beat the consensus expectation for the first time since the beginning of 2022. With intense scrutiny of every data point on the strength of businesses and consumers, today's surprise to the upside combats concerns that the US economy is already in (or teetering on the edge of) a recession. We believe the service sector will lead the US economy higher in 2022, as consumers shift their spending habits away from goods and toward the still-reopening service sector. That said, were it not for supply-chain disruptions and inflationary headwinds still lingering in the wake of poor pandemic-related policy decisions, the service sector would be doing even better. Taking a dive into the details, the major indices were a mixed bag. The business activity index rose to 56.1, while the new orders index declined to 55.6. Together these two represent the most forward-looking pieces of the report, and they still are pointing to more growth ahead. On the hiring side, the employment index fell below 50 to 47.4 in June, with survey respondents citing difficulties finding qualified applicants, even though the demand for talent remains robust. The supplier deliveries index moved higher in June and sits at a historically elevated level, signaling longer lead times for businesses as supply chains still struggle. Survey comments note China's zero-COVID policy as having an adverse impact on the global supply chain, which will likely add upward pressure to the index for the foreseeable future. Finally, the highest reading for any category continues to come from the prices index, even though it has fallen a few points from its all-time high set in April. This decline should fool no one – prices are continuing to rise in the service sector, and at a historically fast pace, with all 18 industries reported paying higher prices in June. In other recent news, data out last Friday showed that car and light truck sales rose 2.3% in June to a 13.0 million annual rate. Supply constraints continue to be the key impediment to auto sales, largely related to a lack of computer chips needed for production. Look for that problem to ease in the second half of 2022, resulting in a somewhat faster pace of sales.

Non-Manufacturing ISM Index *Seasonally Adjusted Unless Noted*	Jun-22	May-22	Apr-22	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Composite Index	**55.3**	55.9	57.1	56.1	57.2	60.7
Business Activity	**56.1**	54.5	59.1	56.6	56.7	61.9
New Orders	**55.6**	57.6	54.6	55.9	57.6	62.8
Employment	**47.4**	50.2	49.5	49.0	50.3	49.7
Supplier Deliveries (NSA)	**61.9**	61.3	65.1	62.8	63.9	68.5
Prices	**80.1**	82.1	84.6	82.3	82.7	78.8

Source: Institute for Supply Management