

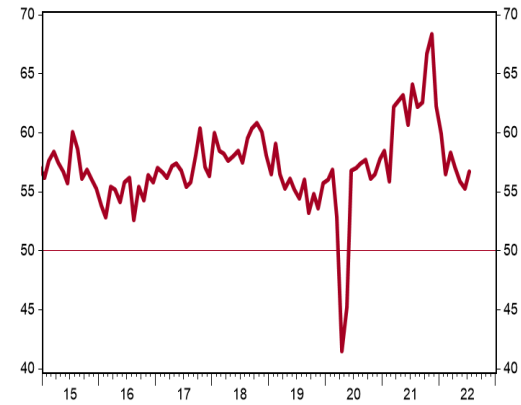
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## July ISM Non-Manufacturing Index

- The ISM Non-Manufacturing index increased to 56.7 in July, easily beating the consensus expected 53.5. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity moved mostly higher in July, and nearly all stand above 50, signaling growth. The business activity index rose to 59.9 from 56.1, while the new orders index also increased to 59.9 from 55.6. The employment index rose to 49.1 from 47.4, while the supplier deliveries index fell to 57.8 from 61.9.
- The prices paid index declined to 72.3 in July from 80.1 in June.

**Implications:** The service sector accelerated in July, with the ISM Services index easily beating consensus expectations. 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. The details of today’s report proved to be very positive. Business activity and new orders, the two most forward-looking pieces of the report, both rose to 59.9. Contrasting this with Monday’s [ISM Manufacturing report](#) shows the shift in consumer spending. Keep in mind that data on inflation-adjusted consumer spending shows that the actual amount of goods being purchased has been falling since early 2021. However, inflation-adjusted spending on services has continued to expand at a healthy pace as consumption preferences return to “normal.” In other details in today’s report, supplier deliveries dropped over four percentage points and now sits at the lowest level since the beginning of 2021, signaling fewer bottlenecks. On the hiring side, the employment index rose to 49.1 in July from 47.4 in June. Despite remaining in contraction territory, the primary issue for the labor market remains a lack of supply, not demand. Survey respondents continue to cite difficulties finding qualified applicants, while the demand for talent remains robust. Finally, the highest reading for any category continues to come from the prices index, but it posted the largest monthly decline in more than five years. While this is welcome news, prices are continuing to rise in the service sector, and at a historically fast pace, with 16 industries reported paying higher prices in July. That said, were it not for inflationary headwinds, lingering supply-chain disruptions, material and labor shortages – all stemming from the poor pandemic-related policy decisions made in the last two years – the service sector would be doing even better. In other recent news, data out yesterday showed that car and light truck sales rose 2.6% in July to a 13.3 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. The end of that problem is not here, but it’s closer. Look for it to ease as we move deeper into the second half of 2022, resulting in a somewhat 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

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Jul-22	Jun-22	May-22	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Composite Index</b>	<b>56.7</b>	55.3	55.9	56.0	56.6	64.1
<b>Business Activity</b>	<b>59.9</b>	56.1	54.5	56.8	56.7	66.3
<b>New Orders</b>	<b>59.9</b>	55.6	57.6	57.7	57.3	64.1
<b>Employment</b>	<b>49.1</b>	47.4	50.2	48.9	49.8	54.1
<b>Supplier Deliveries (NSA)</b>	<b>57.8</b>	61.9	61.3	60.3	62.6	72.0
<b>Prices</b>	<b>72.3</b>	80.1	82.1	78.2	81.0	81.4

Source: Institute for Supply Management