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Economics Group

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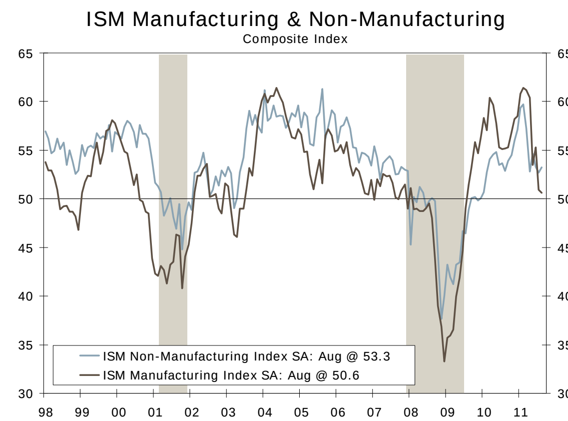
Welcome Respite: ISM Non-Manufacturing Picks Up in August

Sentiment among purchasing managers at the nation's service companies picked up modestly in August, suggesting that, despite other bad news, the economic recovery is not completely stalling.

This Should Alleviate Recession Fears, but Not All Good News

The Institute for Supply Management's non-manufacturing index increased to 53.3 in August, from a reading of 52.7 in July. The number was much better than the consensus had expected. After a string of regional purchasing managers' indexes reported drops in business sentiment to varying degrees over the past several weeks, many market watchers dialed back expectations and braced for the worst. While today's report is somewhat stronger than we expected, it offers support for our long-held view that, while the U.S. economy may have lost momentum, it is still moving forward. Other details of the report were less encouraging. The employment component slipped to 51.6, a level that is consistent with only middling job growth.

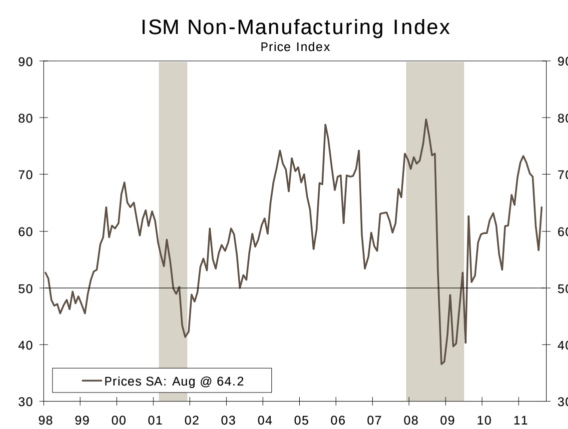


Better Orders Data

Analysis of the sub-indexes reveals that just about all categories remain in expansion territory, and a few are picking up steam. New orders, for example, climbed to 52.8 in August, from 51.7 the month prior. This should help ease recession fears somewhat, especially since the inventory component came down in the month as well. While still elevated at 53.5, the lower inventory level alleviates concerns of over-producing. There is also evidence of renewed confidence in the global economy as export orders jumped to 56.5, from 49.0 in July. The other side of the trade picture seems to be brightening as well, as the imports component also climbed from contraction territory last month to 53.5 in August. That said, both of these series are not seasonally adjusted so we will take the improvement here with a grain of salt.

Prices Gearing Up Again

One theme that has been developing this year is that after months of rising prices, businesses were finally beginning to see at least a slower pace of price growth. Indeed, the prices paid component came down every month since February and correctly presaged a slower rate of wholesale inflation. That trend seems to have gotten bucked somewhat this month as non-manufacturing companies reported generally higher prices with the price component increasing to 64.2 in August.



Implications for the Broader Economy

Coming on a day when global financial markets are in a tailspin once again, today's report brought a welcome indication that the U.S. economy is not going back into recession. The strong orders data (perhaps getting a lift from global trade) help underscore that point. The dip in the employment component suggests that businesses are not yet committed to hiring amid all the uncertainty. We look for headline economic growth on the order of 1.5 to 2.0 percent in the second half of this year.

Source: Institute for Supply Management and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

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