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An analysis of the latest economic data

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U.S. Institute for Supply Management Nonmanufacturing Index (July)

Nonmanufacturers: Rough Start to Q3

Jennifer Lee, Senior Economist • jennifer.lee@bmo.com • 416-359-4092

Well that was somewhat deflating. I'm referring to the lower-than-expected reading on the **U.S. non-manufacturing ISM**. The headline fell for the first time in three months, down 3.4 pts in July to 55.7., the lowest since August 2017. That, in itself, suggests some downside risk for Q3 growth.

The breakdown of the components was very similar to the manufacturing. The headline was dragged down by a 6.2 pt drop in **new orders** (a signal for future activity), the largest monthly setback in two years, to a 7-mth low of 57.0, and a 7.4 pt dive in **business activity** (aka production), the largest monthly drop in nearly a decade (or since November 2008) to a 12-mth low of 56.5. Providing a little bit of an offset was a 2.5 pt pickup in **employment** to a 4-mth high of 56.1 but that's neither here nor there since we already have the jobs report. And, **deliveries were less delayed** in July.

Still, **most industries continue to report growth** .... 16 in total, down 1 from June but up 2 from May. That's still a lot of industries. The collected comments were surprisingly positive until you get towards the end. Were they sorted?
-"*Business is strong in both our commercial-construction and residential-service areas*." (Construction)
-"*Current local and national conditions are good. On track to meet goals and projections for 2018*." (Finance & Insurance)
"*There has been little change in business activity, despite all of the political turmoil. Patients get sick regardless of what is going on in the economy*." (Health Care & Social Assistance)
-"*Vendors continue to report that they are seeing significant increases in order volume this year. They report having to hire more staff to keep up with the increase in orders*." (Management of Companies & Support Services)
-"*Tariffs continue to make steel pricing volatile. Crude oil has trended over (US)$70 a barrel, which provides a bullish outlook for the duration of 2018*." (Mining)
-"*The improving U.S. economy is having a positive impact on our sales growth in all business sectors, with oil and gas taking the lead*." (Other Services)
-"*Generally optimistic. High labor-participation rates, but a GDP (gross domestic product) forecast of about 4 percent is tempered by tariff issues with China and the European Union*." (Professional, Scientific & Technical Services)
-"*Expanding concerns with price increases due to tariff and global trade policy changes and uncertainty. Receiving more requests from suppliers for price increases due to changes in the costs of steel, aluminum and the like*." (Public Administration)
-"*Business is up overall, but a lot of questions loom over the rest of the year. These include concerns about international markets and the increasing tariffs that impact the landed costs of goods*." (Retail Trade)
-"*Import tariffs on wood and steel. Shortages of rail cars, truck drivers and skilled labor. High-priced construction materials*." (Wholesale Trade)
https://www.instituteforsupplymanagement.org/ISMReport/NonMfgROB.cfm?navItemNumber=30163&SSO=1

Bottom Line: Despite the weak report from nonmanufacturers, the comments were generally still positive. But this, along with the weak aggregate hours worked reading in the jobs report earlier today, introduces some downside risk introduced to Q3.

ISM Nonmanufacturing Index

United States (percent reporting)

	Jul	Jun	May	18Q2	18Q1	Jul 17
Nonmanufacturing ISM	55.7	59.1	58.6	**58.2**	**59.4**	**54.3**
Business Activity	56.5	63.9	61.3	**61.4**	**61.1**	**56.5**
Employment	56.1	53.6	54.1	**53.8**	**57.7**	**54.1**
New Orders	57.0	63.2	60.5	**61.2**	**62.3**	**55.7**
Prices Paid	63.4	60.7	64.3	**62.3**	**61.5**	**56.4**
Backlog of Orders (n.s.a.)	51.5	56.5	60.5	**56.3**	**54.3**	**52.0**
Supplier Deliveries (n.s.a.)	53.0	55.5	58.5	**56.2**	**56.5**	**51.0**
New Export Orders (n.s.a.)	58.0	60.5	57.5	**59.8**	**58.5**	**53.0**