

# U.S. Data Review

- ISM nonmanufacturing: orders and business activity rebound; employment softens
- Factory orders: mildly encouraging results

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## ISM Nonmanufacturing

The ISM nonmanufacturing index jumped 2.7 percentage points in August to 56.4 percent, easily beating the consensus estimate of 54.0 percent. The measure is still shy of the average from last year and noticeably below readings of 60 percent or above last fall, but the pickup suggests that the nonmanufacturing sectors still have a bit of vigor.

The business activity component (akin to production) led the gain in August with a surge of 8.4 percentage points to 61.5 percent. The latest reading, while shy of the cyclical peak, matched the average from last year and signaled a good pace of activity (chart). A firm order flow stirred the pickup in business activity, as the new orders component jumped 6.2 percentage points to 60.3 percent. The latest observation was slightly below the average of 61.3 percent from last year, but it was firm by historical standards. Surprisingly, the employment component was soft, as it fell 3.1 percentage points to 53.1 percent, the lowest reading since early 2017.

The price index, which is not a component of the headline figure, changed modestly (up 1.7 percentage points to 58.2 percent) and remained comfortably within the recent range.

## Factory Orders

While activity in the nonmanufacturing sectors seems to be holding up reasonably well, the manufacturing sector has been soft recently. However, the latest report on factory orders offered a bit of encouragement. Total bookings rose 1.4 percent, a touch better than the expected increase of 1.0 percent. Most of the gain occurred in the durable component (up 2.0 percent), with this advance led by the aircraft component (Boeing posted a pickup in bookings after several slow months). Orders ex-transportation fell 0.4 percent, but this dip followed a combined advance of more than one percent in the prior two months and left a sideways trend (chart; next page, upper left). This area lacks vigor, but it is not in retreat.

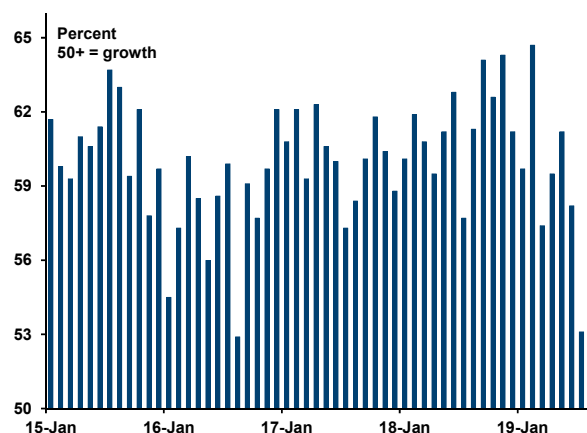
### ISM Nonmanufacturing -- Monthly Indexes

	Apr-19	May-19	Jun-19	Jul-19	Aug-19
<b>ISM Nonmfg. Composite</b>	55.5	56.9	55.1	53.7	56.4
<b>Business activity</b>	59.5	61.2	58.2	53.1	61.5
<b>New orders</b>	58.1	58.6	55.8	54.1	60.3
<b>Employment</b>	53.7	58.1	55.0	56.2	53.1
<b>Supplier deliveries*</b>	50.5	49.5	51.5	51.5	50.5
<b>Prices</b>	55.7	55.4	58.9	56.5	58.2

\* The supplier deliveries index is not seasonally adjusted. The index differs from the other components of the composite measure (business activity, new orders, employment) in interpretation. An index above 50 percent indicates slower deliveries and readings below 50 percent indicate faster deliveries.

Source: Institute for Supply Management via Haver Analytics

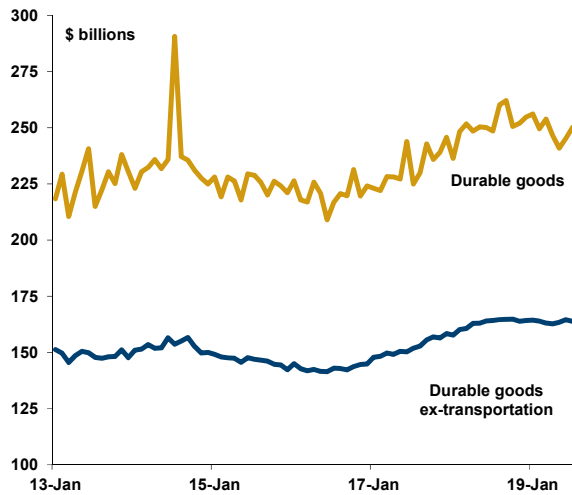
### ISM Nonmanufacturing: Business Activity Index



Source: Institute for Supply Management via Haver Analytics

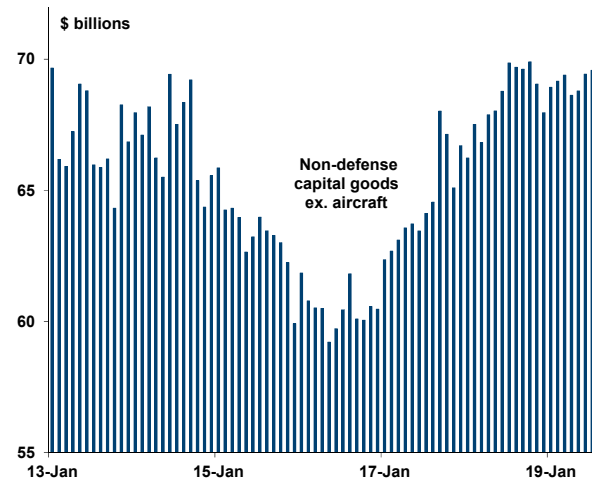
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**Manufacturers' New Orders**



Source: U.S. Census Bureau via Haver Analytics

**Manufacturers' New Orders**



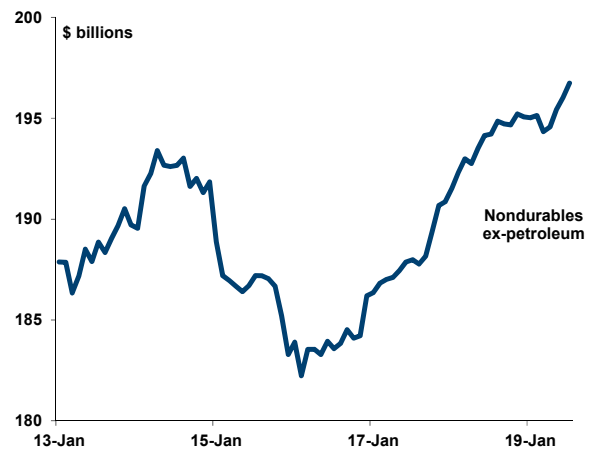
Source: U.S. Census Bureau via Haver Analytics

Orders for nondefense capital goods excluding aircraft merit close attention because of downside risks on investment spending. The increase of 0.2 percent in July (revised from 0.4 percent published last week) did not meaningfully alter the recent trend, which has been sideways or down slightly in recent months (chart, above right). The upward trend that had been in place during 2017 and much of 2018 has faded, but like orders for durable goods in total, the downward tilt is modest.

While the durable sector is managing to hold steady, the nondurable area is advancing slightly, as orders for nondurable goods rose 0.8 percent in July. Some of the advance occurred in the petroleum and coal category (up 2.4 percent), which was probably influenced by higher prices, but orders for nondurable goods excluding petroleum and coal also advanced (up 0.4 percent). The increase ex-petroleum marked the fourth consecutive increase and gave an upward tilt to what had been a flat trend (chart, right).

With orders for nondurable goods advancing and bookings for durable goods moving sideways, the manufacturing sector seems to still have a pulse. The sub-50-percent reading on the ISM manufacturing index published on Tuesday likely overstates the degree of softening in this sector.

**Manufacturers' New Orders**



Source: U.S. Census Bureau via Haver Analytics