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# Business Surveys, Beige Book and Labor Indicators Consistent with Healthy Growth

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## Highlights for this week include:

- Encouragingly, August business surveys from the ISM and S&P Global were both consistent with healthy economic conditions. However, they suggest stubbornly high inflation remains a concern.
- The latest Federal Reserve (Fed) Beige Book was also consistent with steady economic conditions.
- Recent employment indicators are consistent with a "low hire – low fire" steady labor market, with the consensus calling for August nonfarm payroll growth of 55,000 ahead of tomorrow's release.
- The second quarter (Q2) earnings season showed extraordinary results. The full-year 2026 S&P 500 earnings growth estimate now stands at a notable 31%, while the 2027 estimate is for a further healthy gain of 14%.
- The S&P 500 and other important indexes remain near all-time highs. While acknowledging the risks posed by the fluid and uncertain Iranian conflict, we continue to expect stocks to be supported by further economic growth and robust profits.

## August Business Surveys Consistent with Healthy Growth but Inflationary Pressures Remain

At the beginning of the month, we get a timely glimpse at private sector activity from the Institute for Supply Management (ISM) and S&P Global business surveys. These surveys cover both the manufacturing sector and the much larger services sector. Encouragingly, the August surveys from both the ISM and S&P Global are consistent with healthy economic conditions for both manufacturing and services, but sticky inflation.

The ISM and S&P Global service sector surveys are both consistent with healthy service sector growth. Companies generally expressed optimism but tempered that with inflation, supply chain, and tariff concerns. The ISM services' underlying components were mostly stronger, with business activity and new orders reaching their highest levels since December 2021 and February 2023, respectively.

The August ISM manufacturing survey showed slightly slower growth from July, but the reading marked the second-fastest pace since 2022. Fifteen out of the eighteen major manufacturing industries reported growth in August, with only two industries reporting contraction (Wood and Chemical Products). S&P Global's August manufacturing survey was unchanged from July, signaling a solid expansion in the manufacturing economy. The manufacturing sector continues to benefit from AI-related capital investment, the reshoring of production, and increased defense procurement.

These surveys are consistent with an acceleration of economic growth so far in the third quarter. S&P Global notes that the survey data for the third quarter is consistent with annualized economic growth approaching 3.0%, up solidly from the 1.5% pace seen in the second quarter.

## Latest Federal Reserve Beige Book Shows Steady Economic Conditions

The latest Federal Reserve (Fed) Beige Book was consistent with steady economic growth, while showing no evidence of broad overheating or other inflation effects. The Beige Book draws on the Fed's network of contacts across all districts to gather evidence on economic conditions. Manufacturing activity grew across most districts, helped partly by stronger defense and data-center orders, while services activity also increased.

## Employment Indicators Remain Consistent with a Steady Labor Market

The JOLTS report showed Job openings remained stable in July at 7.3 million, while the ADP employment report showed private sector employment rose by 38,000 in August, roughly in line with expectations. Meanwhile, weekly unemployment claims, arguably the best labor market indicator, just came in at 206,000, which remains historically low. All of these readings are consistent with a "low hire – low fire" steady labor market. The consensus is calling for August nonfarm payroll growth of 55,000 ahead of tomorrow's release.

## Earnings Season Shows Impressive Results

The second quarter (Q2) earnings season showed extraordinary results following a strong first quarter. With over 97% of the S&P 500's market capitalization reported so far, Q2 earnings growth is an impressive 35%. While Technology (AI beneficiaries) and Energy lead, earnings growth for the rest of the market has been strong and accelerating. For Q3 2026 and Q4 2026, analysts are calling for earnings growth rates of 28% and 26%. The full-year 2026 S&P 500 earnings growth estimate now stands at a notable 31%, while the 2027 estimate is for a further healthy gain of 14%. Technology remains the major driver of earnings growth and is expected to see 51% growth for the full year 2026 and a further gain of 38% in 2027.

## Remaining Positive on the Market

The S&P 500 and other important indexes remain near all-time highs, and we are encouraged by the breadth of positive performance across sectors and asset classes. While acknowledging that the Iranian conflict continues to pose a risk for the economy and stocks, we remain positive on the stock market. We maintain our expectation that stocks will be supported by further economic growth and robust profits.

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