

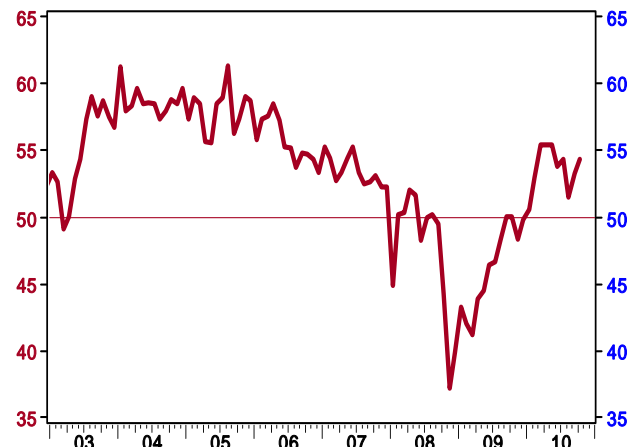
OCTOBER ISM NON-MANUFACTURING INDEX

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- The ISM non-manufacturing composite index rose to 54.3 in October from 53.2 in September, beating the consensus expected gain to 53.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were mostly higher in October, and all remain at levels indicating economic growth. The business activity index increased sharply to 58.4 from 52.8, the new orders index increased to 56.7 from 54.9, and the employment index rose to 50.9 from 50.2. The supplier deliveries index fell to 51.0 from 55.0.
- The prices paid index spiked up to 68.3 in October from 60.1 in September.

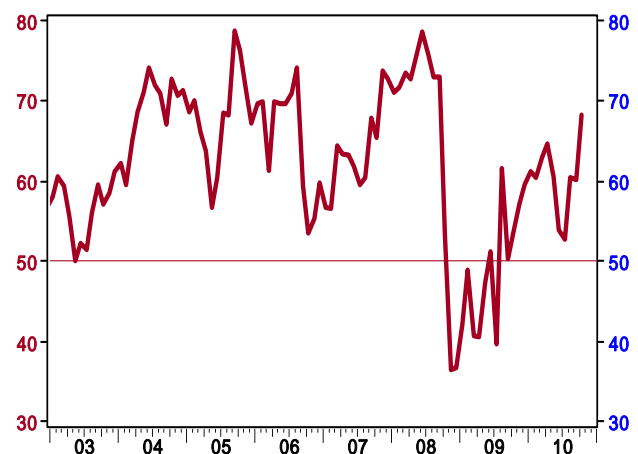
Implications: Today's ISM services report shows economic growth is accelerating into the end of the year. In particular, the business activity index, which has an even higher correlation with economic growth than the overall ISM services index, jumped sharply to 58.4 from 52.8, the largest single-month gain so far in the recovery. After dipping slightly this Summer, the service sector is rebounding strongly, with today's report coming in above the consensus expected increase. Meanwhile, the employment index increased again, tying the highest level since the recovery began. On the inflation front, the prices paid index spiked upward to 68.3. This is the highest the index has been since September 2008 and the collapse of Lehman Brothers. In other words, the Federal Reserve is paying too little attention to the future risk of higher inflation. In other news this morning, the ADP Employment index, a measure of private sector payrolls, increased 43,000 in October. This index typically underestimates private payroll growth in the official Labor Department report and is therefore consistent with our forecast of private payrolls increasing about 120,000 in October.

ISM Nonmanufacturing: NMI Composite Index
SA, 50+=Increasing



Source: Institute for Supply Management /Haver Analytics

ISM: Nonmfg: Prices Index
SA, 50+ = Econ Expand



Source: Institute for Supply Management /Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Oct-10	Sep-10	Aug-10	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	54.3	53.2	51.5	53.0	53.8	50.1
Business Activity	58.4	52.8	54.4	55.2	57.0	54.0
New Orders	56.7	54.9	52.4	54.7	55.4	54.2
Employment	50.9	50.2	48.2	49.8	50.1	41.7
Supplier Deliveries (NSA)	51.0	55.0	51.0	52.3	52.5	50.5
Prices	68.3	60.1	60.3	62.9	59.3	53.4

Source: Institute for Supply Management

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