

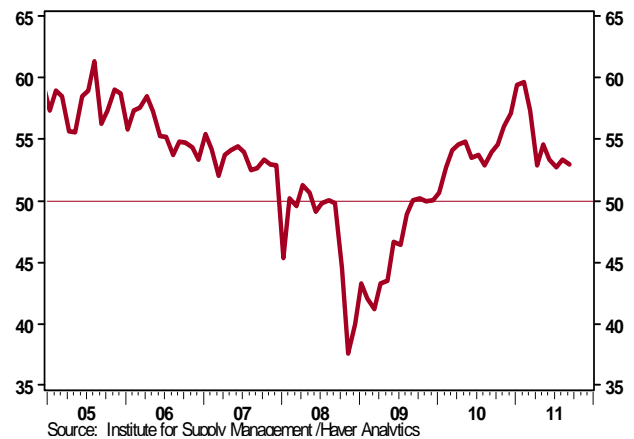
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## September ISM Non-Manufacturing Index

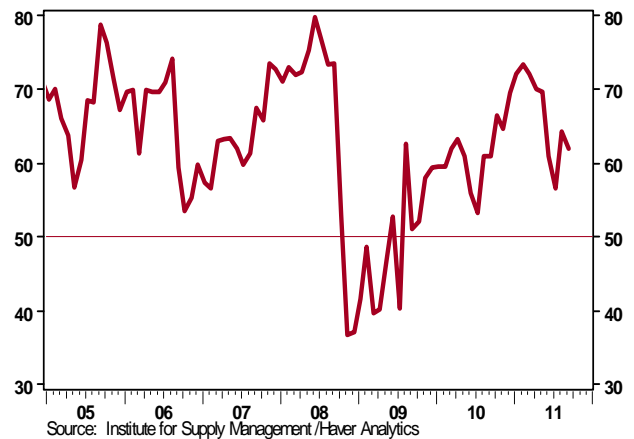
- The ISM non-manufacturing composite index fell slightly to 53.0 in September, beating the consensus expected decline to 52.8. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- Key sub-indexes were mixed in September. The new orders index rose to 56.5 from 52.8 and the business activity index gained to 57.1 from 55.6 last month. The supplier deliveries index fell to 49.5 in September from 53.0 in August and the employment index fell to 48.7 from 51.6.
- The prices paid index slipped to a still elevated 61.9 in September from 64.2 in August.

**Implications:** The two economic reports that came out today both tell the same story: The US is still showing no signs of recession. First, today's report on the service sector was a pleasant surprise, coming in better than consensus expectations despite all of the stock market turmoil as of late and with all of the concerns about the financial turmoil in Europe. A larger decline in this index seemed to make sense as the index sometimes reflects the vagaries of business sentiment rather than actual levels of service sector output. Instead, the index came in at a respectable 53.0. Sentiment among managers may not be as dour as thought, a positive sign going forward. Looking deeper into the report, the business activity index, which has a stronger correlation with GDP growth than the overall index, came in at a very strong 57.1 in September. On the inflation front, the prices paid index fell, but remained at an elevated 61.9 in September. We believe quantitative easing was a mistake and any more would be an even bigger mistake. Monetary policy is extremely loose, and no further monetary action is warranted. Inflation is already creeping upward. Second, in other news this morning, the ADP Employment index, a measure of private sector payrolls, increased 91,000 in September. This beat the consensus expected gain of 75,000 and leads us to slightly increase our forecast for the official Labor Department report (to be released Friday morning) to 110,000. Due to a drop in government jobs, total nonfarm payrolls should rise about 80,000. The data are simply not consistent with a recession. The "high-frequency" data that we are following are also showing that the US economy continues to grow.

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



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



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Sep-11	Aug-11	Jul-11	3-month moving avg	6-month moving avg	Year-ago level
<b>Composite Index</b>	<b>53.0</b>	53.3	52.7	53.0	53.3	53.9
<b>Business Activity</b>	<b>57.1</b>	55.6	56.1	56.3	54.9	54.4
<b>New Orders</b>	<b>56.5</b>	52.8	51.7	53.7	54.0	55.6
<b>Employment</b>	<b>48.7</b>	51.6	52.5	50.9	52.1	50.7
<b>Supplier Deliveries (NSA)</b>	<b>49.5</b>	53.0	50.5	51.0	52.0	55.0
<b>Prices</b>	<b>61.9</b>	64.2	56.6	60.9	63.9	61.0

Source: Institute for Supply Management