

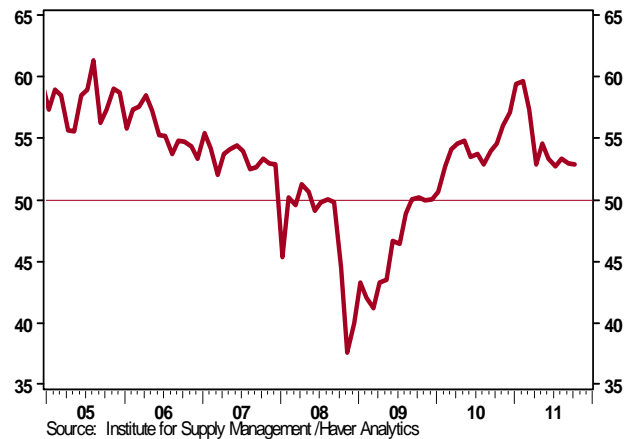
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## October ISM Non-Manufacturing Index

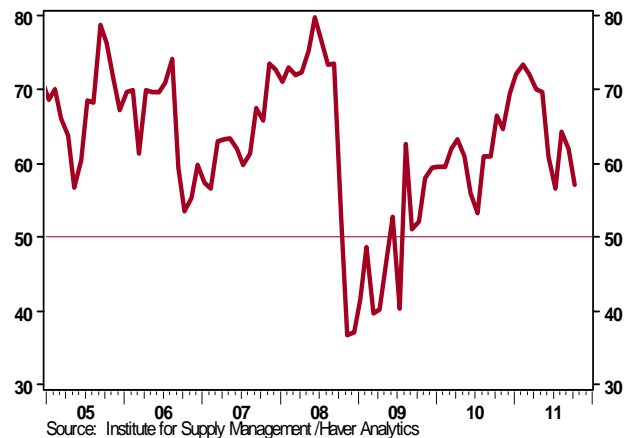
- The ISM non-manufacturing composite index fell slightly to 52.9 in October, coming in below the consensus expected gain to 53.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- Changes in key sub-indexes were mixed in October, but remained above 50, signaling growth. The new orders index fell to 52.4 from 56.5 and the business activity index declined to 53.8 from 57.1 last month. The supplier deliveries index rose to 52.0 in October from 49.5 in September and the employment index gained to 53.3 from 48.7.
- The prices paid index slipped to a still elevated 57.1 in October from 61.9 in September.

**Implications:** Today's report on the service sector remained solid, even though the stock market has continued to remain volatile and many are concerned about financial turmoil in Europe. The ISM surveys can sometimes reflect the vagaries of business sentiment rather than actual levels of service sector output, but the index has remained steady, hovering right around 53 over the past 3 months during the turmoil. The best news from today's report was that the employment and supplier deliveries indexes both rose to levels over 50 signaling expansion again in October. At 53.8, the business activity index shows continued solid growth in the service sector. On the inflation front, the prices paid index fell, but remained at an elevated 57.1 in October. 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. In other news this morning, initial claims for unemployment insurance fell 9,000 last week to 397,000. Continuing claims for regular state benefits declined 15,000 to 3.68 million. In other recent news, the ADP Employment index, a measure of private sector payrolls, increased 110,000 in October. This beat the consensus expected gain of 100,000. Our private payrolls forecast for the official Labor Department report (to be released Friday morning) is 135,000. Due to a decline in government jobs, total nonfarm payrolls should rise about 110,000.

**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>	Oct-11	Sep-11	Aug-11	3-month moving avg	6-month moving avg	Year-ago level
<b>Composite Index</b>	<b>52.9</b>	53.0	53.3	53.1	53.3	54.6
<b>Business Activity</b>	<b>53.8</b>	57.1	55.6	55.5	54.9	58.5
<b>New Orders</b>	<b>52.4</b>	56.5	52.8	53.9	54.0	56.6
<b>Employment</b>	<b>53.3</b>	48.7	51.6	51.2	52.4	52.1
<b>Supplier Deliveries (NSA)</b>	<b>52.0</b>	49.5	53.0	51.5	51.8	51.0
<b>Prices</b>	<b>57.1</b>	61.9	64.2	61.1	61.7	66.4

Source: Institute for Supply Management