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November ISM Non-Manufacturing Index

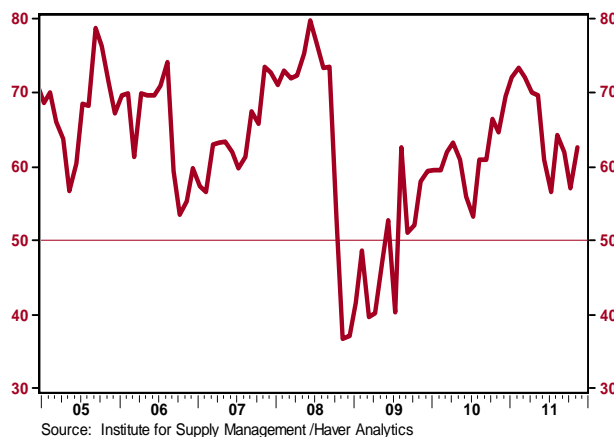
- The ISM non-manufacturing composite index fell slightly to 52.0 in November, coming in below the consensus expected gain to 53.9. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- Changes in key sub-indexes were mixed in November. The new orders index rose to 53.0 from 52.4 and the business activity index rose to 56.2 from 53.8 last month. The supplier deliveries index fell to 50.0 in November from 52.0 in October and the employment index dropped to 48.9 from 53.3.
- The prices paid index rose to 62.5 in November from 57.1 in October.

Implications: The headline number for the ISM services index disappointed this morning, falling short of consensus expectations and dipping to the lowest level in almost two years. At 52, the headline index still shows expansion, but a gradual one. However, we think the headline number is highly misleading. The details of the report show the service sector is re-accelerating. The business activity index, which has a stronger correlation with real GDP growth than the overall index, rebounded to 56.2 in November from 53.8. The new orders index increased as well. As we've said before, the ISM surveys can sometimes reflect the vagaries of business sentiment rather than actual levels of output, and this is likely to be the case with the drop in the headline report for November, when fears about Europe were rampant. The employment sub-index dropped below 50, but since we already have payroll data from November, this is not relevant information. On the inflation front, the prices paid index rose to 62.5 after dipping down to 57.1 last month. Inflation pressures are building with each day that the Federal Reserve clings to loose monetary policy. More monetary action and quantitative easing would be a mistake and would make the inflation problem worse.

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>	Nov-11	Oct-11	Sep-11	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	52.0	52.9	53.0	52.6	52.9	56.0
Business Activity	56.2	53.8	57.1	55.7	55.4	59.4
New Orders	53.0	52.4	56.5	54.0	53.3	58.5
Employment	48.9	53.3	48.7	50.3	51.5	53.6
Supplier Deliveries (NSA)	50.0	52.0	49.5	50.5	51.2	52.5
Prices	62.5	57.1	61.9	60.5	60.5	64.7

Source: Institute for Supply Management