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December ISM Non-Manufacturing Index

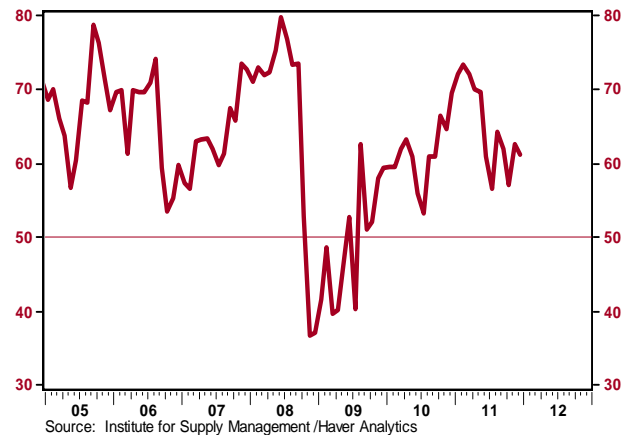
- The ISM non-manufacturing composite index increased to 52.6 in December, coming in slightly below the consensus expected gain to 53.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- Most key sub-indexes were higher in December. The new orders index rose to 53.2 from 53.0, the supplier deliveries index increased to 51.5 in December from 50.0, and the employment index went up to 49.4 from 48.9. The business activity index remained unchanged at a strong 56.2.
- The prices paid index dropped to a still elevated 61.2 in December from 62.5 in November.

Implications: Great news on the labor market this morning. The ADP Employment index, a measure of private payrolls, increased an eye-popping 325,000 in December, easily beating consensus expectations and the highest reading on record, which dates back to 2000. As a result, we are moving up our private payrolls forecast for the official Labor Department report (released tomorrow morning) to 225,000. Some of this probably reflects military reservists leaving active duty and getting back to their jobs. In other news on the job front, initial claims for unemployment insurance declined 15,000 last week to 372,000. The four-week average is now 373,000, the lowest since June 2008. Continuing claims for regular state benefits dropped 22,000 to 3.595 million. The ISM services index fell just short of expectations, but it is headed on the right direction and has remained above the critical 50 level, showing expansion, for 25 straight months. The business activity index, which has a stronger correlation with real GDP growth than the overall index, remained strong at 56.2 in December, and the new orders index rose slightly. On the inflation front, the prices paid index dipped to 61.2 after rising to 62.5 last month. Even though this measure of inflation fell slightly, it remains at elevated levels, indicating upward price pressures. In other recent news, autos and light trucks were sold at a 13.6 million annual rate in December, down slightly from November but up 8.4% from a year ago. Look for more growth in auto sales in the year ahead as consumer purchasing grows due to wage increases and smaller debt repayments.

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>	Dec-11	Nov-11	Oct-11	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	52.6	52.0	52.9	52.5	52.8	57.1
Business Activity	56.2	56.2	53.8	55.4	55.8	62.9
New Orders	53.2	53.0	52.4	52.9	53.3	61.4
Employment	49.4	48.9	53.3	50.5	50.7	52.6
Supplier Deliveries (NSA)	51.5	50.0	52.0	51.2	51.1	51.5
Prices	61.2	62.5	57.1	60.3	60.6	69.5

Source: Institute for Supply Management