

September ISM Non-Manufacturing Index

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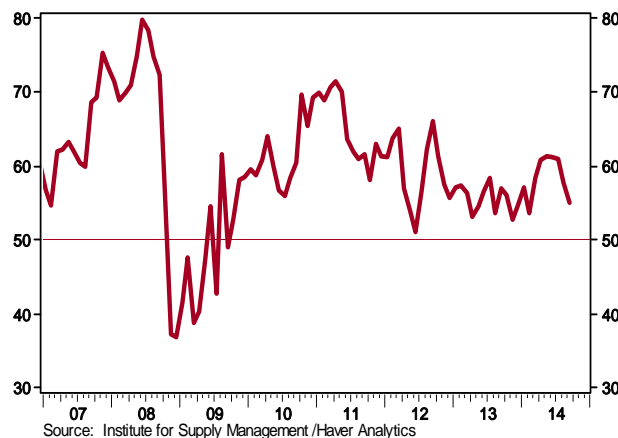
- The ISM non-manufacturing index declined to 58.6 in September, slightly beating the consensus expected 58.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in September, but all remain above 50. The new orders index dipped to 61.0 from 63.8 while the business activity index declined to 62.9 from 65.0. The supplier deliveries index moved lower to 52.0 from 52.5. The employment index rose to 58.5 from 57.1.
- The prices paid index declined to 55.2 in September from 57.7 in August.

Implications: Like Wednesday’s report for the manufacturing sector, today’s ISM service sector report suggests growth remained strong in September, but at a slightly slower pace than in August. Even with the dip in September, the three-month average for the index shows the fastest pace of service industry growth in nearly ten years, and the index has been above 50 for a 56th consecutive month (levels above 50 signal expansion; levels below 50 signal contraction.) The business activity index– which has a stronger correlation with economic growth than the overall index – declined 2.1 points in September to a still elevated 62.9, the second highest reading (behind last month) of the past three years. New orders also dipped last month, but remain at a very robust reading of 61.0, suggesting production should continue to pick up in the months ahead. The employment index ticked higher in September to 58.5 from 57.1 in August, the highest reading we have seen since the start of the recovery. As employment continues to expand, expect income growth to boost consumer spending and business revenue, which, in turn, will help support even more job growth in the future. In other words, the growth in the economy is self-sustaining and should remain that way until monetary policy gets tight, which is at least a few years away. On the inflation front, the prices paid index dropped to 55.2 in September from 57.7 in August. No sign of runaway inflation, but given loose monetary policy, we expect this measure to move upward over the coming year. The US economy is not booming overall, but there is no sign at all of a looming recession. Instead, expect a slightly faster Plow Horse over the next couple of years, with real GDP growth close to 3%.

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-14	Aug-14	Jul-14	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	58.6	59.6	58.7	59.0	57.4	54.5
Business Activity	62.9	65.0	62.4	63.4	61.8	55.8
New Orders	61.0	63.8	64.9	63.2	61.6	58.1
Employment	58.5	57.1	56.0	57.2	55.0	54.1
Supplier Deliveries (NSA)	52.0	52.5	51.5	52.0	51.3	50.0
Prices	55.2	57.7	60.9	57.9	59.5	56.9

Source: Institute for Supply Management