

# October ISM Non-Manufacturing Index

Brian S. Wesbury – Chief Economist  
 Robert Stein, CFA – Dep. Chief Economist  
 Strider Elass – Economist

- The ISM non-manufacturing index declined to 57.1 in October, coming in below the consensus expected 58.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in October, but most remain above 50. The new orders index dipped to 59.1 from 61.0 while the business activity index declined to 60.0 from 62.9. The supplier deliveries index moved lower to 49.5 from 52.0. The employment index rose to 59.6 from 58.5.
- The prices paid index declined to 52.1 in October from 55.2 in September.

**Implications:** Today’s ISM service sector report came in weaker than the consensus expected but still suggests growth remained strong in October, although at a slower pace than in September. The index has now been above 50 for 57 consecutive months (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 2.9 points in October but to a still elevated 60.0. New orders declined last month to the weakest since April but, at 59.1, remains elevated, suggesting production still has room to expand in the months ahead. The brightest spot in today’s report was that the employment index once again ticked higher in October to 59.6 from 58.5 in September, tying 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 52.1 in October from 55.2 in September. Still no signs of higher inflation, but given how loose the Fed is, we do not expect this to last. In other news this morning, the ADP index, which measures private-sector payrolls, increased 230,000 in October, beating the consensus expected 220,000. We will finalize our payroll forecast when we get data on unemployment claims tomorrow morning. But, plugging the ADP report into our models suggests an increase of 245,000 in nonfarm payrolls and a 238,000 gain in private payrolls in October. Another solid month.

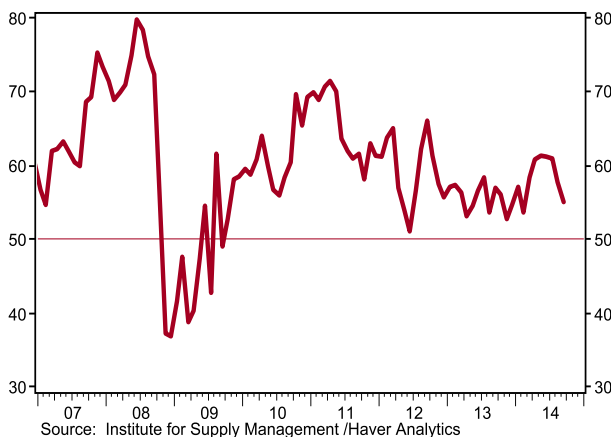
ISM Nonmanufacturing: NMI Composite Index

SA, 50+=Increasing



ISM: Nonmfg: Prices Index

SA, 50+ = Econ Expand



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Oct-14	Sep-14	Aug-14	3-month moving avg	6-month moving avg	Year-ago level
<b>Composite Index</b>	57.1	58.6	59.6	58.4	57.7	55.1
<b>Business Activity</b>	60.0	62.9	65.0	62.6	61.7	58.9
<b>New Orders</b>	59.1	61.0	63.8	61.3	61.8	56.4
<b>Employment</b>	59.6	58.5	57.1	58.4	56.3	56.0
<b>Supplier Deliveries (NSA)</b>	49.5	52.0	52.5	51.3	51.1	49.0
<b>Prices</b>	52.1	55.2	57.7	55.0	58.1	56.2

Source: Institute for Supply Management