

# January ISM Non-Manufacturing Index

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

- The ISM non-manufacturing index rose to 54.0 in January, coming in above the consensus expected 53.7. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were all higher in January, and all stand at levels above 50. The employment index rose to 56.4 in January, the highest reading for the index in over three years. The business activity index increased to 56.3 from 54.3, while the supplier deliveries index moved to 52.5 from 51.5. The new orders index rose to 50.9 from 50.4.
- The prices paid index increased to 57.1 in January from 54.7 in December.

**Implications:** After a surprise on the low side from the ISM manufacturing report, today's ISM service sector report surprised on the upside. The ISM services report came in at a healthy 54.0 in January, above consensus expectations and showing expansion for the 49<sup>th</sup> consecutive month. The business activity index – which has a stronger correlation with economic growth than the overall index – increased to 56.3, signaling solid economic growth. The best part of the report was a 0.8 point increase in the employment index, to 56.4. The employment index now stands at its highest level since November of 2010. The new orders index rose to 50.9 in January, reversing four months of declines and keeping the index in expansion territory. On the inflation front, the prices paid index ticked higher to 57.1 in January from 54.7 in December. Still no sign of runaway inflation, but given loose monetary policy, we expect this measure to move upward over the coming year. In other news this morning, the ADP Employment index, which measures private-sector payrolls, increased 175,000 in January. Our models now say the official Labor Department report (released Friday morning) will show a gain of 151,000 for both nonfarm and private payrolls. In other recent news, automakers sold cars and light trucks at a 15.2 million annual rate in January, down 1% from December, up only 0.1% from a year ago, and below the consensus expected pace of 15.7 million. According to NOAA, this was the coldest January in the last 20 years. As a result, take any soft January data with multiple grains of salt (if you have any left after using it on the roads).

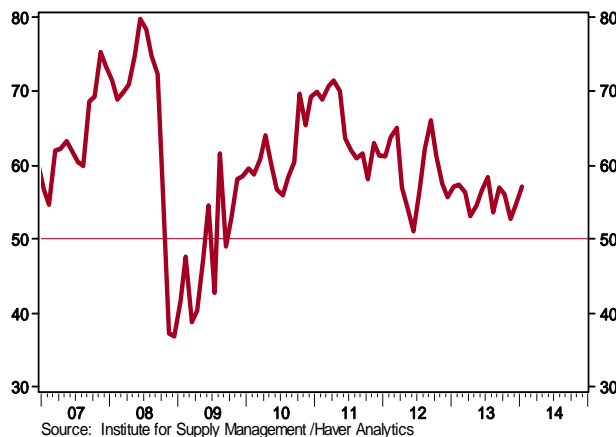
ISM Nonmanufacturing: NMI Composite Index

SA, 50+=Increasing



ISM: Nonmfg: Prices Index

SA, 50+ = Econ Expand



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Jan-14	Dec-13	Nov-13	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Composite Index</b>	54.0	53.0	54.1	53.7	54.8	54.9
<b>Business Activity</b>	56.3	54.3	55.3	55.3	56.9	56.4
<b>New Orders</b>	50.9	50.4	55.7	52.3	55.2	55.0
<b>Employment</b>	56.4	55.6	54.5	55.5	55.5	55.6
<b>Supplier Deliveries (NSA)</b>	52.5	51.5	51.0	51.7	51.4	52.5
<b>Prices</b>	57.1	54.7	52.7	54.8	55.2	57.1

Source: Institute for Supply Management