

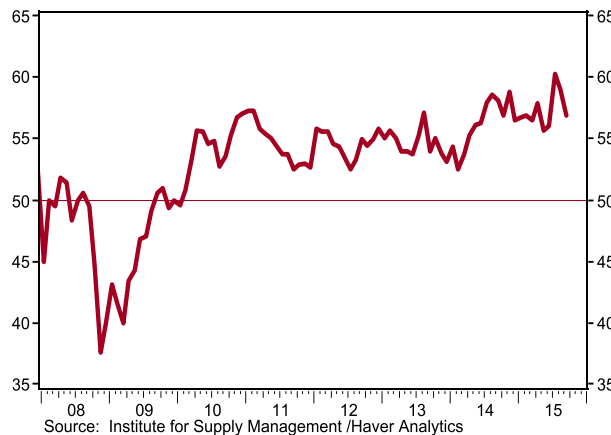
September ISM Non-Manufacturing Index

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

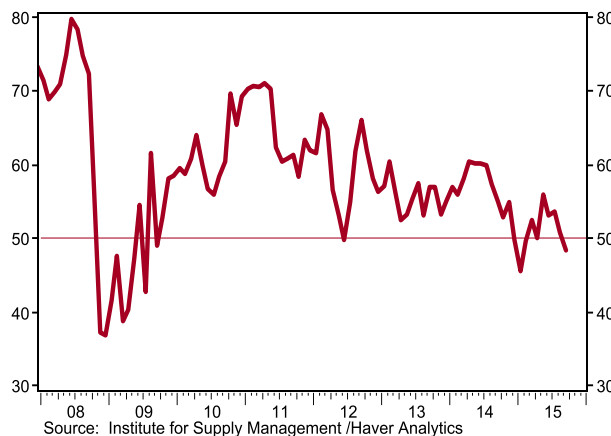
- The ISM non-manufacturing index declined to 56.9 in September from 59.0, coming in below the consensus expected 57.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in September, but all remain above 50, signaling expansion. The new orders index fell to 56.7 from 63.4 while the business activity index declined to 60.2 from 63.9. The supplier deliveries index was unchanged in September, and the employment index rose to 58.3 from 56.0.
- The prices paid index declined to 48.4 in September from 50.8 in August.

Implications: It's a tale of two economies when it comes to the ISM reports. While the manufacturing index suggests the factory sector is barely growing, the service sector, which represents a far larger portion of the total economy, continues to show strength. At 58.7, the third quarter average for the index represents the strongest quarter from the service sector going back to 2005. And you also have to go back to 2005 to find a stronger performance through the first nine months of the year. Keep this in mind when the pouting pundits focus on the slowdown in the index since July. What they may not mention is that September's decline comes off the two highest readings from the index in more than six years. Looking at the details of today's report doesn't show anything to worry about. In September, thirteen of eighteen industries reported growth. The business activity and new orders indexes slowed in September, but both stand well above 50, signaling continued growth, although at a slightly slower pace than in recent months. Expect activity to remain strong over the coming months as companies move to fill the steady flow of new orders coming in. Both the business activity and new orders indexes showed acceleration from the first quarter to the second (coming off the bitter winter and West Coast port strikes), and the growth trend continued through Q3. The biggest positive in today's report is the employment index rising to 58.3 in September from 56.0 in August. This is in line with the trend in initial claims (30 consecutive weeks under 300K) that suggests employment is healthier than the last two payroll reports have shown. It's very early, but our forecast for October payrolls is a return to gains of 200K+. In the past five years, payroll growth has been below trend in each third quarter and then above trend in each fourth quarter. We wouldn't be surprised to see more of the same this year. On the inflation front, the prices paid index dipped in September to 48.4, led lower by (who else?) mining. As a whole, today's report suggests continued growth in the months ahead and underlying strength in the economy.

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-15	Aug-15	Jul-15	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	56.9	59.0	60.3	58.7	57.6	58.1
Business Activity	60.2	63.9	64.9	63.0	61.9	62.0
New Orders	56.7	63.4	63.8	61.3	59.9	60.5
Employment	58.3	56.0	59.6	58.0	56.4	57.8
Supplier Deliveries (NSA)	52.5	52.5	53.0	52.7	52.2	52.0
Prices	48.4	50.8	53.7	51.0	52.0	55.2

Source: Institute for Supply Management