

# September ISM Non-Manufacturing Index

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- The ISM non-manufacturing index rose to 57.1 in September from 51.4 in August, easily beating the consensus expected 53.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in September, and all stand above 50, signaling expansion. The new orders index surged to 60.0 from 51.4 while the business activity index jumped to 60.3 from 51.8 in August. The employment index rose to 57.2 from 50.7. The supplier deliveries index declined to 51.0 from 51.5.
- The prices paid index rose to 54.0 in September from 51.8 in August.

**Implications:** The economy is accelerating as it enters the fall. On the heels of Monday's report showing a return to growth for factories, today's report on the service sector was booming, with the ISM non-manufacturing index showing the largest single month increase in the nearly twenty-year history of the report. The September reading of 57.1 is also the highest reading of 2016, and an 80th consecutive month of expansion. The rise from the service sector was broad-based, with fourteen of the eighteen industries reporting expansion, while just four – led by mining – reported contraction. Mirroring the headline index, both the new orders and business activity indexes surged in September. This bodes well for the coming months, as companies move to fill the new orders. The employment index also jumped in September, rising 6.5 points to 57.2, the highest reading in 2016. While employment has been a weak spot in the manufacturing sector, the much larger service sector has shown continued expansion, in-line with the 200,000+ monthly nonfarm jobs growth seen over the past year. And while the pace of jobs growth may slow modestly as the labor market tightens, employment gains look set to put continued downward pressure on the unemployment rate. No matter how you cut it, the labor market looks very close to the Fed's "full employment" target. On the inflation front, the prices paid index moved higher to 54.0 in September from a reading of 51.8 in August. Rising costs for coffee, chicken, and dairy more than offset declining prices for beef and butter. As a whole, today's ISM report shows a November rate hike would be justified, though the "non-political" Fed is likely to avoid making a move so close to the election. Barring a large surprise to the downside in employment or inflation data, neither of which looks likely, December should finally see the next step in making monetary policy slightly less loose.

**ISM Nonmanufacturing: NMI Composite Index**  
 SA, 50+=Increasing



**ISM Nonmanufacturing: Prices Index**  
 SA, 50+ = Economy Expanding



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Sep-16	Aug-16	Jul-16	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Composite Index</b>	57.1	51.4	55.5	54.7	54.9	56.7
<b>Business Activity</b>	60.3	51.8	59.3	57.1	57.5	60.1
<b>New Orders</b>	60.0	51.4	60.3	57.2	57.6	56.4
<b>Employment</b>	57.2	50.7	51.4	53.1	52.5	57.9
<b>Supplier Deliveries (NSA)</b>	51.0	51.5	51.0	51.2	51.8	52.5
<b>Prices</b>	54.0	51.8	51.9	52.6	53.7	49.1

Source: Institute for Supply Management