

November 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 57.2 in November from 54.8 in October, easily beating the consensus expected 55.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in November, and all stand above 50, signaling expansion. The employment index surged to 58.2 from 53.1 and the business activity index rose to 61.7 from 57.7 in October. The supplier deliveries index increased to 52.0 from 50.5, while the new orders index moved lower to 57.0 from 57.7.
- The prices paid index declined modestly to 56.3 from 56.6 in October.

Implications: Sentiment in the service sector hit the highest level in more than a year in November and has signaled growth for 82 consecutive months. The high level in November was broad-based, with fourteen of eighteen industries reporting expansion. Meanwhile, all major measures of activity remain above 50, signaling expansion as well. New orders continue to grow, but at a slightly slower pace than in October, while all other major indexes showed a pickup in pace. Business activity and employment both showed the fastest pace of expansion in more than a year, as companies work to fill the steady flow of new orders arriving. The healthy readings on new orders and business activity both suggest the service sector should continue to grow in the months ahead. While employment has been a weak spot in the manufacturing sector, the much larger service sector continues to expand, in-line with the 188,000 monthly nonfarm jobs growth seen over the past year. And while the pace of job growth may slow modestly as the labor market tightens, employment gains should put continued downward pressure on the unemployment rate while pushing up wage growth. 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 was essentially unchanged at 56.3 in November from 56.6 in October, representing the second highest reading in more than two years (behind only October’s). Rising costs for airfare, copper, and fuels more than offset declining prices for beef and dairy. With a strong employment reading and inflation showing a pickup in pace over recent months, today’s report from the service sector points full steam ahead for a rate hike at next week’s Fed meeting.

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>	Nov-16	Oct-16	Sep-16	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	57.2	54.8	57.1	56.4	55.4	56.6
Business Activity	61.7	57.7	60.3	59.9	58.4	59.4
New Orders	57.0	57.7	60.0	58.2	57.7	57.9
Employment	58.2	53.1	57.2	56.2	53.9	56.0
Supplier Deliveries (NSA)	52.0	50.5	51.0	51.2	51.7	53.0
Prices	56.3	56.6	54.0	55.6	54.4	50.0

Source: Institute for Supply Management