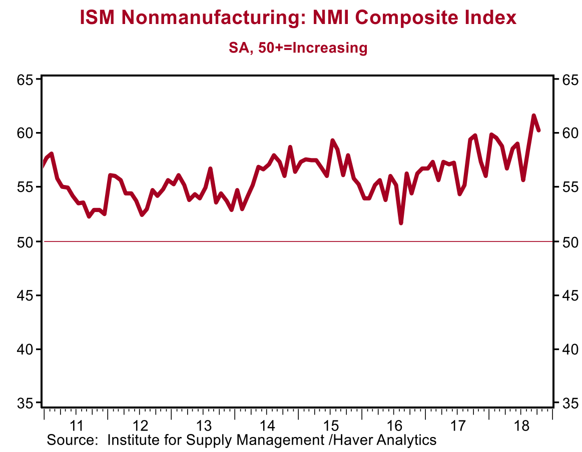
First Trust DATAWATCH

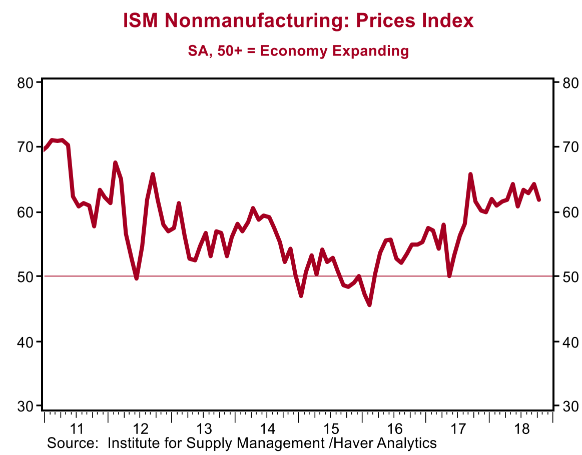
November 5, 2018 • 630.517.7756 • www.ftportfolios.com

October ISM Non-Manufacturing Index

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

- The ISM non-manufacturing index declined to 60.3 in October, beating the consensus expected 59.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in October, but all remain well above 50, signaling expansion. The business activity index declined to 62.5 from 65.2 in September, while the employment index fell to 59.7 from 62.4. The new orders index was virtually changed at 61.5 from 61.6 in September. The supplier deliveries index rose to 57.5 from 57.0.
- The prices paid index declined to 61.7 from 64.2 in September.





Implications: Following September's ISM non-manufacturing surge to 61.6, the second highest in series history - and the best reading in more than twenty years - October had a slight dip to 60.3, still the second highest reading since 2005. Growth remains broad-based, with seventeen of eighteen service-sector industries reporting expansion while just one, education services, showed decline. The most forward-looking indices – new orders and business activity – both showed a slower pace of growth in October but remain well in expansion territory with readings above 60, and both are averaging the highest year-to-date readings we have seen this recovery. In other words, the non-manufacturing sector remains extremely robust. And given the continued healthy pace of both orders and activity, we expect the service sector to continue humming along as we close out 2018 and move in to the new year. The employment index also moved lower in October, falling to a still strong 59.7. But, as we saw with last week's employment release - and as we highlight in today's Monday Morning Outlook – the labor market is firing on all cylinders. Finally, the supplier deliveries index rose in October, signaling orders continue to be delayed. Survey respondents noted that delays are the result of labor shortages, component shortages, and freight issues (likely due to a lack of truck drivers). These delays, paired with continued strength in new orders, are putting upward pressure on prices – as reflected in the prices paid index, which fell to 61.7 in October but continues to show rising prices. While we don't expect prices are going to soar any time soon, this does suggest inflation will continue to run above the Fed's 2% target, which has already been breached by all three key inflation measures – PPI, CPI, and the Fed's favored PCE index. Look for the Fed to maintain its gradual pace of rate hikes through 2019.

Non-Manufacturing ISM Index *Seasonally Adjusted Unless Noted*	Oct-18	Sep-18	Aug-18	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	**60.3**	61.6	58.5	60.1	59.0	59.8
Business Activity	**62.5**	65.2	60.7	62.8	61.7	61.5
New Orders	**61.5**	61.6	60.4	61.2	60.7	62.6
Employment	**59.7**	62.4	56.7	59.6	57.1	57.0
Supplier Deliveries (NSA)	**57.5**	57.0	56.0	56.8	56.3	58.0
Prices	**61.7**	64.2	62.8	62.9	62.9	61.5

Source: Institute for Supply Management