

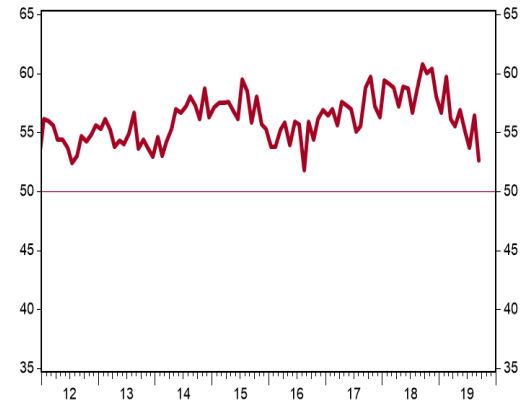
September ISM Non-Manufacturing Index

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- The ISM Non-Manufacturing index fell to 52.6 in September, below the consensus expected 55.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in September, but all came in above 50, signaling growth. The new orders index declined to 53.7 from 60.3 in August, while the business activity index fell to 55.2 from 61.5. The employment index declined to 50.4 from 53.1 in August. The supplier deliveries index increased to 51.0 from 50.5.
- The prices paid index rose to 60.0 from 58.2 in August.

Implications: If you take the ISM index at face value, activity in the service sector continues to grow, though at a slower pace than in recent months. Given that Monday’s report on the manufacturing sector showed a further decline below 50 (levels below 50 signal contraction), the pouting pundits are having a field day, but today’s report doesn’t support their doom and gloom pronouncements. Yes, it’s true that reading of 52.6 is the lowest reading for the index in three years, but it remains in expansion territory, and the expansion remains broad-based with thirteen of eighteen industries reporting growth in September, while four showed a decline. With the headline decline, you may expect respondent comments to be largely negative, but that wasn’t the case. Respondents did note trade uncertainty impacting short-term pricing, but far more comments reflected a positive view on the current environment. “We are very busy right now [and] expect to be so for the next 12 months.” “Business continues to pick up as we quickly approach Q4.” “(E)mployee cost [wages] are increasing in this better economy...” These hardly sound like companies anticipating a recession. Following large jumps in August, the two most forward-looking indices – business activity and new orders – led the decline in September, but both remain comfortably in expansion territory, and both categories match the overall index in showing the bulk of industries participating in the growth. The employment index moved lower to 50.4 from 53.1 in August. Pairing this with yesterday’s ADP employment report, which showed private payroll gains of 135,000 in September, and this morning’s report, which showed initial jobless claims rose 4,000 last week to 219,000 while continuing claims declined 5,000 to 1.651 million, and our models suggest nonfarm payroll gains of 125,000 from tomorrow’s September employment report. September reports have tended to come in below consensus expectations in recent years, but we expect a rebound in the pace of job creation in the fourth quarter. The supplier deliveries index moved to 51.0 in September from 50.5 in August, signaling slower deliveries to companies, as respondents noted higher demand and capacity constraints as reason for the slowdown. Price pressures, meanwhile, continue to pick up in September, led higher by costs for fuels and construction workers. Some of the upward pressure may be attributable to tariffs affecting the costs of goods imported from China, but as companies continue to shift production out of China, the magnitude of the impact has been muted. As a whole, today’s report could have been better, but it continues to show an economy on solid footing. In other recent news, automakers reported selling cars and light trucks at a 17.2 million annual rate in September, up 1.1% versus August, but down 0.7% from a year ago.

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



Source: Institute for Supply Management/Haver Analytics

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



Source: Institute for Supply Management/Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Sep-19	Aug-19	Jul-19	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	52.6	56.4	53.7	54.2	55.0	60.8
Business Activity	55.2	61.5	53.1	56.6	58.1	64.1
New Orders	53.7	60.3	54.1	56.0	56.8	61.5
Employment	50.4	53.1	56.2	53.2	54.4	60.4
Supplier Deliveries (NSA)	51.0	50.5	51.5	51.0	50.8	57.0
Prices	60.0	58.2	56.5	58.2	57.5	63.3

Source: Institute for Supply Management