

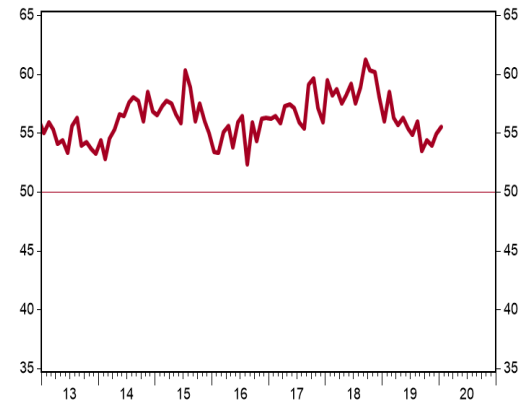
January ISM Non-Manufacturing Index

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- The ISM Non-Manufacturing index increased to 55.5 in January, beating the consensus expected 55.1. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in January, but all stand above 50, signaling growth. The business activity index rose to 60.9 from 57.0 in December, while the new orders index increased to 56.2 from 55.3. The employment index fell to 53.1 from 54.8 in December, and the supplier deliveries index declined to 51.7 from 52.5.
- The prices paid index declined to 55.5 from 59.3 in December.

Implications: The service sector followed manufacturing higher to start 2020, with the ISM non-manufacturing index rising to a five-month high of 55.5. And the growth was broad-based in January, with twelve industries reporting growth, while six showed decline. The two most forward-looking indices – business activity and new orders – both moved higher in January. Companies reported increased orders in January thanks to higher optimism about the Q1 outlook and a pickup in demand from customers. Business activity, meanwhile, rose as companies work to fill the continued growth in orders. There was little mention of the coronavirus from respondents, with the exception being the health care industry which is monitoring demand for masks and safety goggles. Unexpected events like the coronavirus can bring volatility to the data, especially with survey-based measures where emotion can play into responses. We don't anticipate a material change to the fundamentals, which should keep the service sector expanding at a healthy pace in the year ahead. It's worth noting that activity could have grown faster but for difficulty in finding qualified labor to fill additional positions (which shouldn't be a surprise with the unemployment rate at multi-decade lows). The employment index slipped to 53.1 from 54.8 in December. While we are waiting on tomorrow's initial claims data to finalize our forecast, other data on the labor market suggests Friday's employment report will show a print of around 172,000 nonfarm jobs added, a pickup from the 145,000 jobs added in December. With the tighter labor market, we anticipate that 2020 will average around 150,000 to 160,000 jobs added per month, pushing the unemployment rate towards 3.2%, which would mark the lowest unemployment since the 1950s. On the inflation front, the prices paid index declined to 55.5 from 59.3 in December, as a drop in fuel costs was partially offset by rising prices for beef, cheese, and labor. With the manufacturing index rising back above 50 in January, and the service sector showing healthy growth, the pouting pundits have shifted their attention to other topics. They live on fear, even when the fear isn't justified. We let the data do the talking, and the data show the expansion continues.

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>	Jan-20	Dec-19	Nov-19	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	55.5	54.9	53.9	54.8	54.7	56.0
Business Activity	60.9	57.0	52.3	56.7	57.1	57.9
New Orders	56.2	55.3	56.7	56.1	56.4	58.1
Employment	53.1	54.8	54.9	54.3	53.7	56.4
Supplier Deliveries (NSA)	51.7	52.5	51.5	51.9	51.6	51.5
Prices	55.5	59.3	58.8	57.9	58.1	58.7

Source: Institute for Supply Management

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