

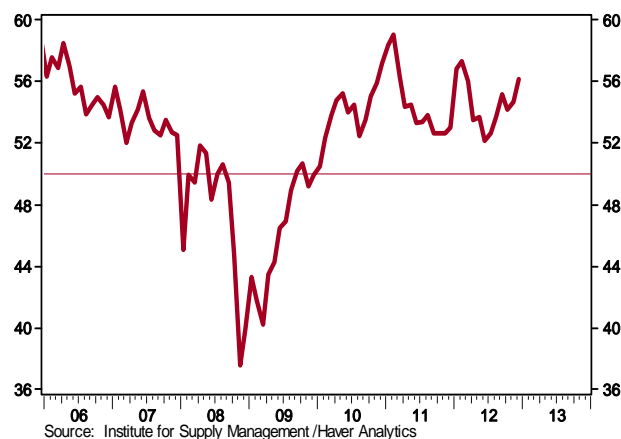
December ISM Non-Manufacturing Index

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

- The ISM non-manufacturing index rose to 56.1 in December, coming in well above the consensus expected 54.1. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The direction of the key sub-indexes was mixed in December, but most remain above 50. The new orders index rose to 59.3 from 58.1 and the employment index surged to 56.3 in December from 50.3. The business activity index declined to 60.3 from 61.2 while the supplier deliveries index fell to 48.5 from 49.0.
- The prices paid index declined slightly to 56.6 in December from 57.0 in November.

Implications: A very solid report on the service sector today as the ISM non-manufacturing index showed expansion for the 36th consecutive month, easily beating consensus expectations, and coming in at 56.1, the highest level since February. The underlying details of the report were pretty good, too. The biggest surprise from today's report was that the employment sub-index surged in December coming in at 56.3, the best reading since March and a good sign for the economy moving forward. The sub-index for business activity – which has a stronger correlation with economic growth than the overall index – fell slightly to 60.3, but remains at a very healthy level. New orders saw an increase to 59.3, the best levels since February. On the inflation front, the prices paid index declined to 56.6, but remains elevated. Given the loose stance of monetary policy, inflation should continue to move higher over the coming years. Today's report, along with other data we have received this week, show the economy is doing just fine and will continue to plow along through 2013.

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



ISM: Nonmfg: Prices Index
 SA, 50+ = Econ Expand



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Dec-12	Nov-12	Oct-12	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	56.1	54.7	54.2	55.0	54.4	53.0
Business Activity	60.3	61.2	55.4	59.0	58.3	55.9
New Orders	59.3	58.1	54.8	57.4	56.3	54.6
Employment	56.3	50.3	54.9	53.8	52.6	49.8
Supplier Deliveries (NSA)	48.5	49.0	51.5	49.7	50.3	51.5
Prices	56.6	57.0	65.6	59.7	61.1	62.0

Source: Institute for Supply Management