

December ISM Non-Manufacturing Index

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- The ISM non-manufacturing index declined to 56.2 in December, coming in below the consensus expected 58.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all lower in December, but all remain above 50. The business activity index fell to 57.2 from 64.4 while the new orders index dipped to 58.9 from 61.4. The supplier deliveries index declined to 52.5 from 54.5 and the employment index moved lower to 56.0 from 56.7.
- The prices paid index declined to 49.5 in December from 54.4 in November.

Implications: Don't let the drop in the headline number fool you. While the ISM services index declined in December, the drop came off the second highest reading in nearly ten years, and, at 56.2, the headline index was almost exactly the 56.3 it averaged throughout 2014. The index has now been above 50 for 59 consecutive months (levels above 50 signal expansion; levels below 50 signal contraction.) The business activity index – which has a stronger correlation with economic growth than the overall index – declined 7.2 points in December to a still robust 57.2. A decline in the activity index in December shouldn't come as a surprise; we've seen December dips in each of the past four years as businesses focus on budgeting for the new year. The new orders index, a more forward looking measure, ticked lower in December to a still strong 58.9, suggesting production will continue to expand in the months ahead but at a slightly slower pace. The employment index showed a small slip to 56.0 from 56.7 in November, but paired with the strong readings in October and November, represent the strongest quarter for employment growth since the index started in 1997. We will finalize our payroll forecast when we get data on unemployment claims Thursday morning. But, plugging the data from today's report into our models suggests an increase of 202,000 in nonfarm payrolls and a 190,000 gain in private payrolls in December. Another solid month. On the inflation front, the prices paid index dropped below 50 for the first time in over five years, led lower by the continued decline in energy prices. While the drop in oil may hold down inflation in the short term, monetary policy remains loose, and we expect this measure to move upward over the coming year. In other recent news, cars and light trucks sold at a 16.9 million annual rate in December, down 1.7% from November but up 9% from December 2013. For 2014 as a whole, Americans bought 16.5 million cars and light trucks, up 5.8% from 2013 and the fastest pace since 2006. Look for further gains in 2015 to roughly a 17.0 – 17.3 million pace. To put this in perspective, the record for any year was 2000 when Americans bought 17.4 million back when the NASDAQ hit its peak.

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-14 | Nov-14 | Oct-14 | 3-month <i>moving avg</i> | 6-month <i>moving avg</i> | Year-ago <i>level</i> |
|--|-------------|--------|--------|------------------------------|------------------------------|--------------------------|
| Composite Index | 56.2 | 59.3 | 57.1 | 57.5 | 58.3 | 53.0 |
| Business Activity | 57.2 | 64.4 | 60.0 | 60.5 | 62.0 | 54.3 |
| New Orders | 58.9 | 61.4 | 59.1 | 59.8 | 61.5 | 50.4 |
| Employment | 56.0 | 56.7 | 59.6 | 57.4 | 57.3 | 55.6 |
| Supplier Deliveries (NSA) | 52.5 | 54.5 | 49.5 | 52.2 | 52.1 | 51.5 |
| Prices | 49.5 | 54.4 | 52.1 | 52.0 | 55.0 | 54.7 |

Source: Institute for Supply Management