

October ISM Non-Manufacturing Index

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- The ISM non-manufacturing index declined to 54.8 in October from 57.1 in September, coming in below the consensus expected 56.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all lower in October, but all remain above 50, signaling expansion. The employment index fell to 53.1 from 57.2 while the business activity index declined to 57.7 from 60.3 in September. The new orders index dipped to 57.7 from 60.0, and the supplier deliveries index moved lower to 50.5 from 51.0.
- The prices paid index rose to 56.6 in October from 54.0 in September.

Implications: The Fed is looking for “some” further evidence on inflation and employment, and today’s report from the ISM is exactly that. Activity in the service sector grew for an 81st consecutive month in October, though at a slightly slower pace than in September. And the growth was broad based, with thirteen of eighteen industries reporting expansion. Meanwhile, all major measures of activity remain above 50, signaling expansion. Both the new orders and business activity indexes declined to a still respectable 57.7 in October. These two forward looking indexes suggest that the service sector should continue to grow in the months ahead. The employment index declined in October, but it’s worth noting that the decline comes off the highest reading in 2016 and still represents the second highest reading for the employment index this year. While employment has been a weak spot in the manufacturing sector, the much larger service sector continues to expand, in-line with the 200,000+ monthly nonfarm jobs growth seen over the past year. And while the pace of jobs growth may slow modestly as the labor market tightens (we forecast 177,000 nonfarm jobs added in October), employment gains should put continued downward pressure on the unemployment rate. No matter how you cut it, the labor market looks very close to the Fed’s “full employment” target. On the inflation front, the prices paid index rose to 56.6 in October from 54.0 in September, and is now showing the highest reading in more than two years. Rising costs for copper, dairy, and fuels more than offset declining prices for pork and poultry. Add today’s report from the service sector to the growing list of data supporting a December rate hike.

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



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



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Oct-16	Sep-16	Aug-16	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	54.8	57.1	51.4	54.4	54.7	58.3
Business Activity	57.7	60.3	51.8	56.6	57.3	61.8
New Orders	57.7	60.0	51.4	56.4	57.3	60.8
Employment	53.1	57.2	50.7	53.7	52.5	58.4
Supplier Deliveries (NSA)	50.5	51.0	51.5	51.0	51.8	52.0
Prices	56.6	54.0	51.8	54.1	54.2	49.4

Source: Institute for Supply Management