

December ISM Non-Manufacturing Index

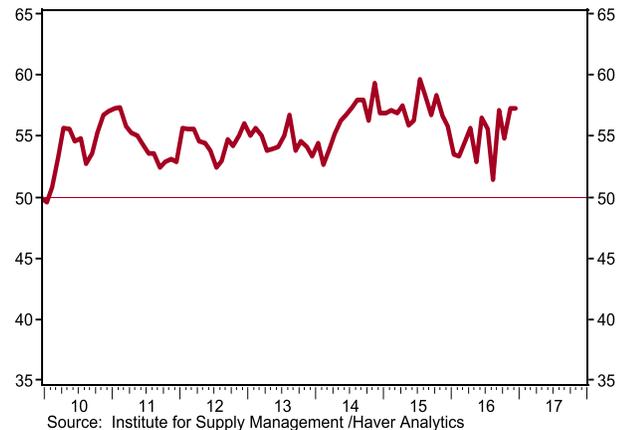
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- The ISM non-manufacturing index was unchanged at 57.2 in December, beating the consensus expected 56.8. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in December, but all remain above 50, signaling expansion. The new orders index rose to 61.6 from 57.0 in November, while the supplier deliveries index was unchanged at 52.0. The employment index declined to 53.8 from 58.2 in November, while the business activity index moved lower to 61.4 from 61.7.
- The prices paid index increased to 57.0 from 56.3 in November.

Implications: Service sector sentiment matched the highest reading of 2016 in December, showing expansion for an 83rd consecutive month. While the headline index was unchanged from November’s reading of 57.2, the underlying details of the report were an improvement. New orders jumped to 61.6, the highest reading in more than a year and a sign that business activity (and employment) should follow suit higher in the coming months as companies fill the rise in orders. Meanwhile, the largest decline in December came from the employment index, which continued to signal job growth, but at a slower pace than in November. A modest slowdown in the pace of employment gains is to be expected as the labor market tightens, but we expect hiring will continue and push up the pace of wage gains. On the inflation front, the prices paid index rose to 57.0 in December from 56.3 in November, representing the highest reading in more than two years. Rising costs for copper and fuels more than offset declining prices for beef and dairy. Overall, positive sentiment from the service sector in December was broad-based, with twelve of eighteen industries reporting expansion while only three reported contractions. And taken as a whole, today’s report follows the strong manufacturing sector report released by the ISM on Tuesday in showing a healthy economy heading into the new year as businesses and consumers prepare for new political leadership and new policies. In other news this morning, initial claims for unemployment insurance plummeted 28,000 last week to 235,000. Continuing claims rose 16,000 to 2.11 million. Meanwhile, the ADP report showed private payrolls increased 153,000 in December. Plugging these figures into our models suggests tomorrow’s official report from the Labor Department will show a nonfarm gain of 152,000, which we think will be revised up in later months. In other recent news, automakers reported cars and light trucks were sold at an 18.4 million annual rate in December, up 3.1% from November, up 5.2% from a year ago, and the fastest pace for any month since 2005. Auto sales hit another new annual record high in 2016, showing plenty of confidence on the part of consumers.

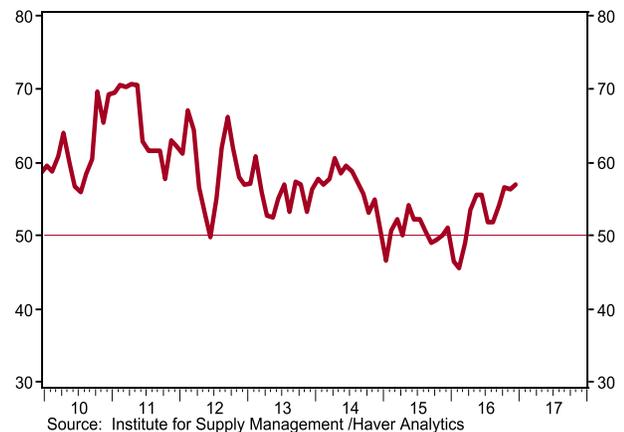
ISM Nonmanufacturing: NMI Composite Index

SA, 50+=Increasing



ISM Nonmanufacturing: Prices Index

SA, 50+ = Economy Expanding



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Dec-16	Nov-16	Oct-16	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	57.2	57.2	54.8	56.4	55.5	55.8
<i>Business Activity</i>	61.4	61.7	57.7	60.3	58.7	59.5
<i>New Orders</i>	61.6	57.0	57.7	58.8	58.0	58.9
<i>Employment</i>	53.8	58.2	53.1	55.0	54.1	56.3
<i>Supplier Deliveries (NSA)</i>	52.0	52.0	50.5	51.5	51.3	48.5
Prices	57.0	56.3	56.6	56.6	54.6	51.0

Source: Institute for Supply Management