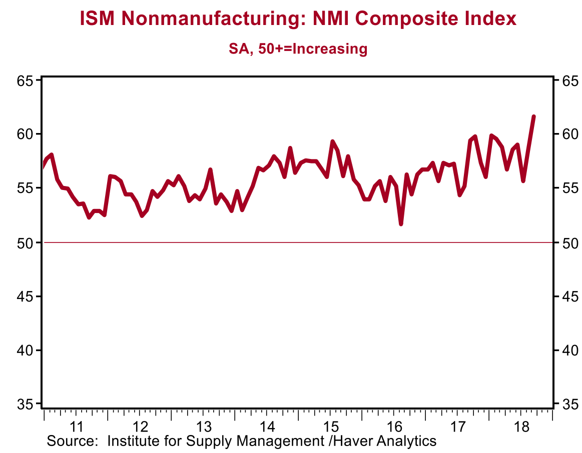
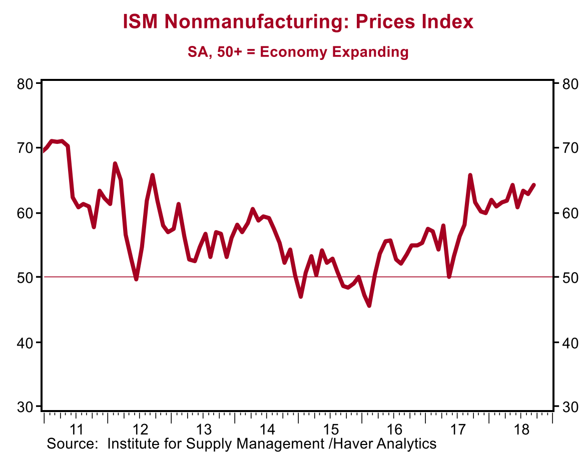
September ISM Non-Manufacturing Index

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

- The ISM non-manufacturing index rose to 61.6 in September, well above the consensus expected 58.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all higher in September, and all remain comfortably above 50, signaling expansion. The employment index jumped to 62.4 from 56.7 in August, while the business activity index rose to 65.2 from 60.7. The new orders index increased to 61.6 from 60.4 in August, and the supplier deliveries index moved higher to 57.0 from 56.0.
- The prices paid index rose to 64.2 from 62.8 in August.





Implications: Today's report on the service sector is so strong, it's hard to figure out where to start. We could highlight that the September reading of 61.6 is the second highest reading in series history (and the best reading in more than twenty years), or we could celebrate that seventeen of eighteen service sector industries reported growth, while not one showed decline. We could easily keep going, but you get the point. Lets dig into some details. The most forward-looking indices – new orders and business activity – moved from strength to strength in September (with business activity also hitting the second highest reading in history). Given the continued healthy pace of both orders and activity, expect the service sector to continue humming along in the coming months. The employment index also surged in September, rising to 62.4 – the highest reading in series history. On the jobs front, the ADP employment report was also released this morning, showing a private payroll gain of 230,000 in September, well above the consensus expected 184,000. That said, the ADP report has historically overstated job gains in storm-impacted months, and we expect Hurricane Florence will dampen Friday's employment numbers. While we are still awaiting data on initial and continuing claims, we are now expecting nonfarm payroll growth of 163,000 for September. Finally, deliveries continue to be delayed, with survey respondents noting supplier backlogs and capacity constraints. These delays, paired with continued strength in new orders, are putting upward pressure on prices – as reflected in the prices paid index increasing to a reading of 64.2 in September - that looks likely to remain over the intermediate term. While we don't expect prices are going to soar any time soon, this does suggest inflation will continue to run above the Fed's 2% target, which has already been breached by all three key inflation measures – PPI, CPI, and the Fed's favored PCE index. Look for stronger wording in the Fed statements and the "dot plot" in November and December to signal higher odds of rate hikes in 2019. In other news yesterday, automakers reported that they sold cars and light trucks at a 17.4 million annual rate in September, up 4.3% from August, but down 4.0% from a year ago. We expect auto sales to gradually decline versus year-ago levels as consumers, who have plenty of purchasing power, shift toward other sectors. And in the short-term, don't be surprised to see added storm-related volatility.

Non-Manufacturing ISM Index *Seasonally Adjusted Unless Noted*	Sep-18	Aug-18	Jul-18	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Composite Index	**61.6**	58.5	55.7	58.6	58.4	59.4
Business Activity	**65.2**	60.7	56.5	60.8	61.1	60.9
New Orders	**61.6**	60.4	57.0	59.7	60.5	62.2
Employment	**62.4**	56.7	56.1	58.4	56.1	56.4
Supplier Deliveries (NSA)	**57.0**	56.0	53.0	55.3	55.8	58.0
Prices	**64.2**	62.8	63.4	63.5	62.9	65.9

Source: Institute for Supply Management