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November ISM Non-Manufacturing Index

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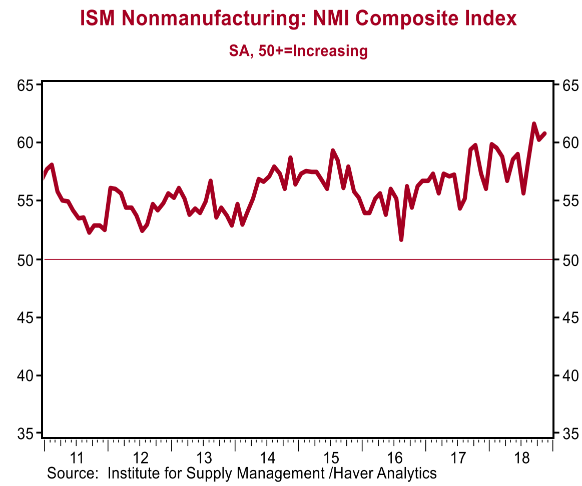
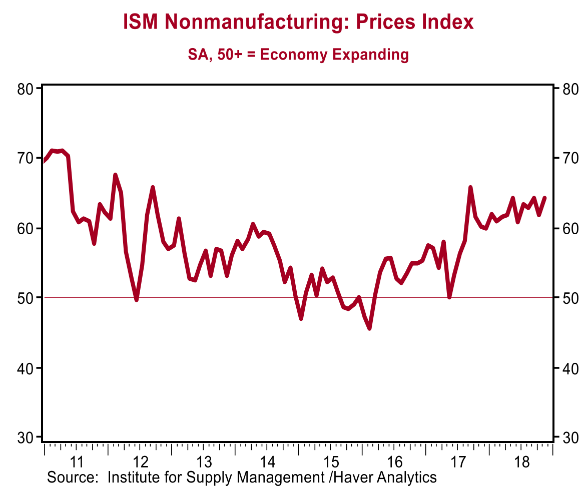
- The ISM non-manufacturing index rose to 60.7 in November, easily beating the consensus expected 59.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in November, but all remain well above 50, signaling expansion. The business activity index rose to 65.2 from 62.5 in October, while the new orders index increased to 62.5 from 61.5. The employment index declined to 58.4 from 59.7 in October, and the supplier deliveries index fell to 56.5 from 57.5.
- The prices paid index rose to 64.3 from 61.7 in October.





Implications: Service sector activity continues to surge, with the November ISM Services index hitting the second highest reading (behind just September) in more than a decade. And barring a massive decline in December, 2018 will average the highest full-year reading for the index since the series began in the late 1990s. A look at the details of today's report shows that the pickup in activity was broad-based, with seventeen of eighteen industries reporting growth in November (the agriculture, forestry, fishing & hunting industry reported a decline). In addition to the breadth of growth, the two most forward-looking indices – new orders and business activity – led the gain in November, suggesting we will see a strong close to this year and a healthy start to 2019. That said, two major sub-indices moved lower in November, showing continued growth, but at a slower pace than October. The employment index declined to a still robust reading of 58.4, from 59.7 in October. As we noted in today's analysis of the trade report, we expect tomorrow's employment report to show a gain of 193,000 nonfarm jobs. Growth in employment would be even faster, but the lowest unemployment rate in nearly fifty years has led to difficulties for companies in finding qualified labor (this also explains the pickup in wage growth as demand for labor exceeds supply at prior lower wages). Finally, the supplier deliveries index declined in November, signaling that delays related to labor shortages, component shortages, and freight issues (due to a lack of truck drivers), are easing somewhat. These delays, paired with the strength in new orders, are putting upward pressure on prices – as reflected in the prices paid index, which rose to 64.3 in November. While we don't expect prices will soar any time soon, this suggests inflation will continue to run at-or-above the Fed's 2% target, putting pressure on the Fed not to fall behind the curve with the pace of rate hikes in 2019. In other recent news, automakers reported they sold cars and light trucks at a 17.5 million annual rate in November, down 0.2% from October, and down 0.8% from a year ago. We expect auto sales will continue to gradually decline versus year-ago levels as consumers, who have plenty of purchasing power, shift toward other sectors.

Non-Manufacturing ISM Index *Seasonally Adjusted Unless Noted*	Nov-18	Oct-18	Sep-18	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Composite Index	**60.7**	60.3	61.6	60.9	59.3	57.3
Business Activity	**65.2**	62.5	65.2	64.3	62.3	61.1
New Orders	**62.5**	61.5	61.6	61.9	61.0	58.8
Employment	**58.4**	59.7	62.4	60.2	57.8	55.4
Supplier Deliveries (NSA)	**56.5**	57.5	57.0	57.0	55.9	54.0
Prices	**64.3**	61.7	64.2	63.4	62.9	60.1

Source: Institute for Supply Management