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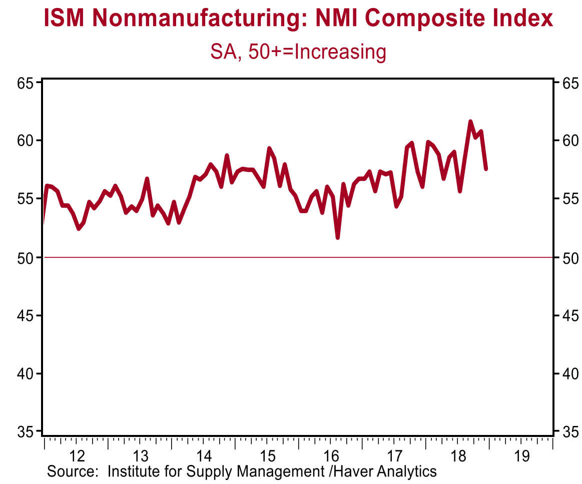
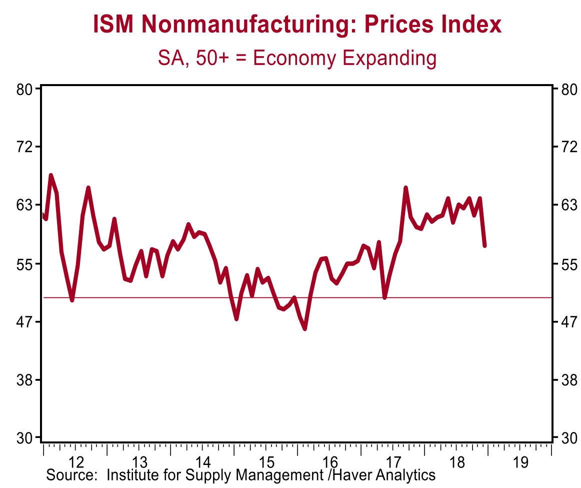
December ISM Non-Manufacturing Index

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

- The ISM non-manufacturing index declined to 57.6 in December, coming in below the consensus expected 58.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in December, but all remain well above 50, signaling expansion. The business activity index fell to 59.9 from 65.2 in November, while the supplier deliveries index declined to 51.5 from 56.5. The employment index moved lower to 56.3 from 58.4 in November. The new orders index rose to 62.7 from 62.5.
- The prices paid index declined to 57.6 from 64.3 in November.

Implications: The pace of growth in the service sector slowed in December, but despite the year-end dip, 2018 averaged the highest reading for the index since the series began in the late 1990s. And while the pouting pundits may put up a huff over the monthly decline (any slowdown in economic data has brought out the doomsayers), the December reading of 57.6 was higher than the annual reading for any year since 2005, except for 2018 itself. In other words, hardly reason for concern. A look at the details of today's report shows that growth was broad-based, with sixteen of eighteen industries reporting growth in December while just one, mining, reported a decline (one industry reported no change). In addition to the breadth of growth, the two most forward-looking indices – new orders and business activity – remain comfortably in growth territory, even with the 5.3-point decline in the business activity index. The employment index, in a somewhat paradoxical move given last Friday's booming jobs report - declined to 56.3 from 58.4 in November. Survey respondents continue to note that the tightening labor market has made hiring (and retaining) employees more difficult, and this in turn has been pushing wages higher. Finally, the supplier deliveries index once again declined in December, 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 – which continued to rise in December though at a slower pace than in November. While we don't expect prices will soar any time soon, this suggests inflation will continue to run near-or-above the Fed's 2% target, keeping the Fed on track for continued rate hikes in 2019 if long term interest rates move up as we expect. As a whole, 2018 was a strong year for both the services and manufacturing sectors, and the tailwinds that sped growth look set to continue in the new year.





Non-Manufacturing ISM Index *Seasonally Adjusted Unless Noted*	Dec-18	Nov-18	Oct-18	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Composite Index	**57.6**	60.7	60.3	59.5	59.1	56.0
Business Activity	**59.9**	65.2	62.5	62.5	61.7	57.8
New Orders	**62.7**	62.5	61.5	62.2	61.0	54.5
Employment	**56.3**	58.4	59.7	58.1	58.3	56.3
Supplier Deliveries (NSA)	**51.5**	56.5	57.5	55.2	55.3	55.5
Prices	**57.6**	64.3	61.7	61.2	62.3	59.9

Source: Institute for Supply Management

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