

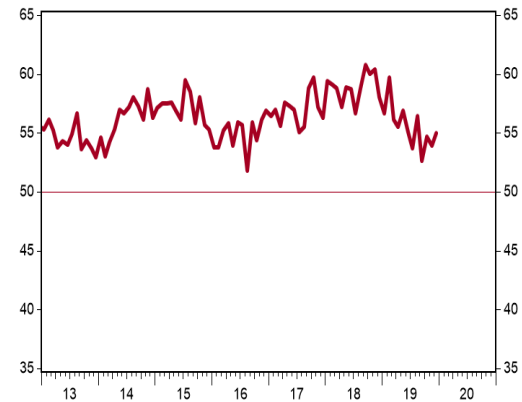
December ISM Non-Manufacturing Index

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- The ISM Non-Manufacturing index rose to 55.0 in December, beating the consensus expected 54.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in December, but all stand above 50, signaling growth. The business activity index rose to 57.2 from 51.6 in November, while the supplier deliveries index increased to 52.5 from 51.5. The new orders index fell to 54.9 from 57.1 in November, and the employment index declined to 55.2 from 55.5.
- The prices paid index was unchanged at 58.5.

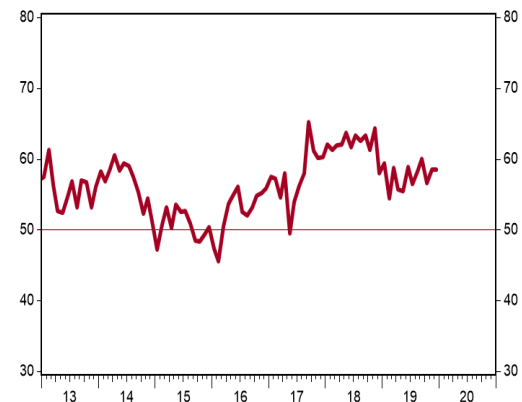
Implications: While so much attention has been given to the ISM manufacturing index as it dipped below 50 in recent months, data from the much larger service sector continues to show solid growth. And the growth was broad-based in December, with eleven industries reporting growth, while six showed decline. The two most forward-looking indices – business activity and new orders – moved in opposite directions in December, with activity rising but orders slowing. Companies reported increased order activity in November as remaining 2019 budgets were put to work, and healthy orders activity continued in December – though at a modestly slower pace, in part due to reduced holiday schedules. Meanwhile, the pickup in orders from October and November led to a rise in activity as orders are filled. Activity could have grown faster but for increasing lead times for materials and difficulty in finding qualified labor to fill additional positions (which shouldn't be a surprise with the unemployment rate at multi-decade lows). Speaking of workers, the employment index slipped to 55.2 from 55.5 in November. While we are waiting on tomorrow's ADP employment report and Thursday's initial claims data to finalize our forecast, we believe that Friday's employment report will show a print of around 154,000 nonfarm jobs added. That represents a slowdown from the 200,000+ jobs added in November as GM workers returned from strike, but healthy growth nonetheless. On the inflation front, the prices paid index was unchanged at 58.5 in December, as rising costs for beef, cheese, and fuel were offset by a decline in prices for steel and lettuce. At the end of the day, the service sector report from the ISM should be given more weight than the manufacturing report when it comes to the outlook on the broader economy, but the media loves negative news and these data simply don't support their dour outlook. Fear sells, even when the fear isn't justified.

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



Source: Institute for Supply Management/Haver Analytics

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



Source: Institute for Supply Management/Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Dec-19	Nov-19	Oct-19	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	55.0	53.9	54.7	54.5	54.4	58.0
Business Activity	57.2	51.6	57.0	55.3	55.9	61.2
New Orders	54.9	57.1	55.6	55.9	56.0	62.7
Employment	55.2	55.5	53.7	54.8	54.0	56.6
Supplier Deliveries (NSA)	52.5	51.5	52.5	52.2	51.6	51.5
Prices	58.5	58.5	56.6	57.9	58.1	58.0

Source: Institute for Supply Management