

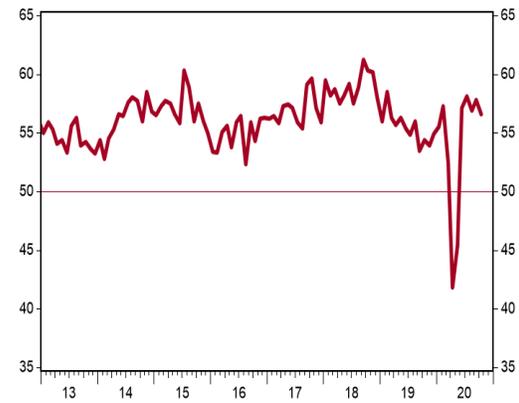
# October ISM Non-Manufacturing Index

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

- The ISM Non-Manufacturing index declined to 56.6 in October, lagging the consensus expected 57.5. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity were mostly lower in October but all remained above 50. The new orders index declined to 58.8 from 61.5 in September, while the business activity index fell to 61.2 from 63.0. The employment index moved lower to 50.1 from 51.8 in September. The supplier deliveries index increased to 56.2 from 54.9.
- The prices paid index rose to 63.9 from 59.0 in September.

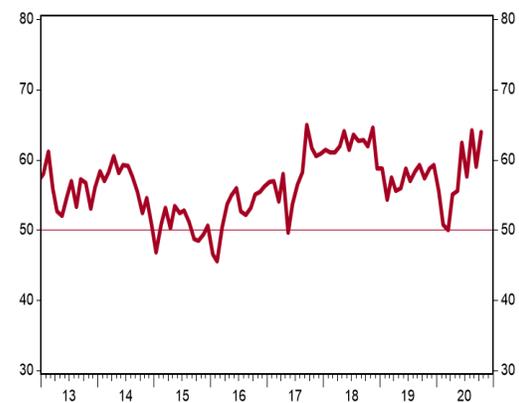
**Implications:** Service sector activity continued to expand in October, but at a slightly slower rate than in September. In total, sixteen of eighteen industries reported growth in September, while two (arts, entertainment & recreation, and public administration) reported contraction. The pandemic remains the driving force surrounding cautious optimism from the service sector, with companies reporting that they continue to adapt and get back toward “normal,” but rising cases around the country (and government decisions related to pullbacks) could impact the path in the months ahead. The two most forward-looking indices – business activity and new orders – both moved lower in October, but remain deep in expansion territory. New orders activity had the largest move in October, declining to 58.8 from 61.5, but while the pace of growth slowed, growth continued in fifteen of the eighteen sectors, while just one (public administration) reported contraction. Business activity tells a similar story, with a slightly weaker pace of growth but activity moving forward across the vast majority of industries. Both orders and activity look likely to remain elevated in the months ahead, though it will come with fits and starts. The one main sub-index that rose in October was supplier deliveries, which rises when companies report longer delivery delays (typically a sign of more demand than companies can fill in a timely manner) and declines as delivery delays ease. The increase in delays in October came as back orders and raw material shortages pair with service issues from some carrier companies. In other words, this is a supply-side issue as supply chains continue to come back online. This – paired with stimulus spending and a loose monetary policy that has drastically increased the size of the M2 money supply – is a recipe for rising inflation in the quarters ahead. With the Fed simultaneously committing to keep rates low for the foreseeable future, they are taking a gamble on the future of inflation. On cue, the prices paid index rose to 63.9 from 59.0 in September. Cleaning products, medical supplies (like N95 masks), and construction labor continue to lead prices higher. On the jobs front, the employment index stayed a hair’s breadth inside expansion territory, with a reading of 50.1. Taken as a whole, today’s report further confirms what most economic reports have been telling us over recent months: the recovery is underway. Nobody knows with certainty where exactly things will go from here as it relates to COVID-19. What we do know is that our ability to identify, respond to, and treat cases as they arise continues to strengthen with each passing day. And with the Republicans holding the Senate, the chance of drastic changes to policy now looks largely obsolete. What does look certain is that the entrepreneurs and innovators aren’t going to stop driving innovation – and the U.S. - forward.

ISM Services: Services PMI Composite Index  
 SA, 50+=Increasing



Source: Institute for Supply Management/Haver Analytics

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



Source: Institute for Supply Management/Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Oct-20	Sep-20	Aug-20	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Composite Index</b>	<b>56.6</b>	57.8	56.9	57.1	55.3	54.4
<b>Business Activity</b>	<b>61.2</b>	63.0	62.4	62.2	60.1	55.5
<b>New Orders</b>	<b>58.8</b>	61.5	56.8	59.0	58.1	55.6
<b>Employment</b>	<b>50.1</b>	51.8	47.9	49.9	44.5	53.9
<b>Supplier Deliveries (NSA)</b>	<b>56.2</b>	54.9	60.5	57.2	58.6	52.5
<b>Prices</b>	<b>63.9</b>	59.0	64.2	62.4	60.5	57.3

Source: Institute for Supply Management