



# Economics Group

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## ISM Holds Up Slightly Better Than Expected In September

**The ISM non-manufacturing survey held up better than expected in September, with the headline index falling 0.3 points to 53.0. The employment series fell more sharply, however, sliding 2.9 points to 48.7.**

### Despite A Better Headline Number, Growth Is Still Slowing

The headline ISM non-manufacturing survey came in slightly better than expectations, with the composite index falling 0.3 points to 53.0 in September. Business activity improved during the month, with nine industries reporting gains in activity, five industries reporting no change and just four industries reporting that activity decelerated during the month. The new orders index also rose solidly, with the series climbing 3.7 points to 56.5. Moreover, order backlogs increased a solid 5.0 points. On the downside, the employment index fell 2.9 points to 48.7, which is the lowest reading since April 2010. A higher proportion of firms also reported that inventories were too high, and both the new export orders and imports series weakened during the month, suggesting that the European sovereign debt crisis and global economic slowdown is beginning to impact the service sector and construction firms here in the United States.

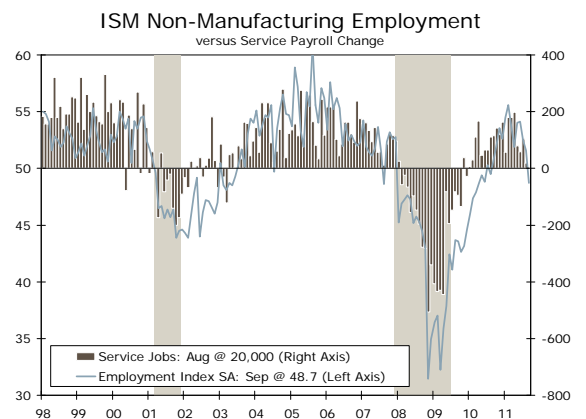
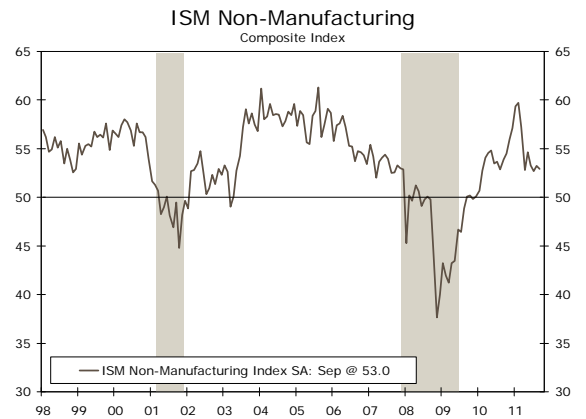
### New Orders and Order Backlogs Both Improved

The new orders series rose 3.7 points in September to 56.5 as nine industries reported growth and five industries reported declines. September's increase comes on the heels of a smaller gain in the prior month, and brings the orders index back up above the range it has maintained for the past six months. Order backlogs also rose in September, climbing 5.0 points to 52.5. This marks the first time this series has been above the key 50.0 break-even level since May. Businesses are more inclined to hire when they have a sizeable order backlog, so a few more monthly readings above 50 would help boost employment prospects.

### Hiring Pulled Back In September

The closely watched employment series slipped 2.9 points to 48.7, which marks the lowest reading for this series since April 2010. Eleven industries reported that they decreased employment during the month, while six industries reported an increase and one said employment was unchanged from the prior month. Most of the industries reducing jobs tended to be labor-intensive industries, including arts and entertainment, real estate, the hospitality sector, public administration and retailing. By contrast, the six industries adding jobs tended to be more capital intensive, including mining, management of companies, wholesale trade, utilities, transportation and warehousing and the information sector.

The weaker reading for the employment series takes much of the shine off of the better-than-expected headline report. The data, however, are somewhat at odds with the improved hiring figures from this morning's ADP survey and the even better hiring figures in the Challenger employment survey. As a result, this Friday's employment report remains every bit the mystery it was before today's data.



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