



Economics Group

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ISM Non-Manufacturing Rises Modestly in November

The ISM non-manufacturing index rose 0.5 points to 54.7 in November. While most of the key components improved, the employment series fell 4.6 points to 50.3, which adds to concerns about Friday's jobs report.

Non-Manufacturing Is Not the Same as Services

The ISM non-manufacturing survey is commonly referred to as a survey of the services sector. While the service sector is the largest part of the economy and accounts for the bulk of businesses surveyed, the ISM non-manufacturing survey also covers agriculture, forestry, mining and construction. We highlight this distinction because the stronger showing in November's non-manufacturing ISM survey appears to have been driven primarily by gains in agriculture, forestry, real estate and construction, which suggest that much of the gain occurred outside of the services sector.

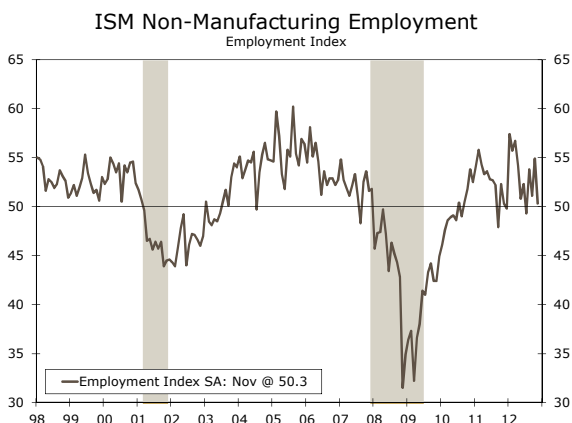
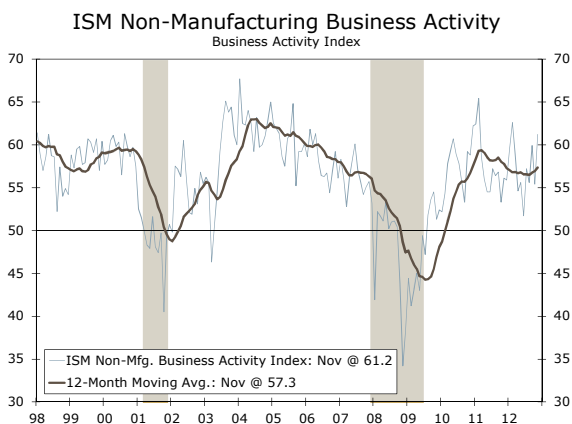
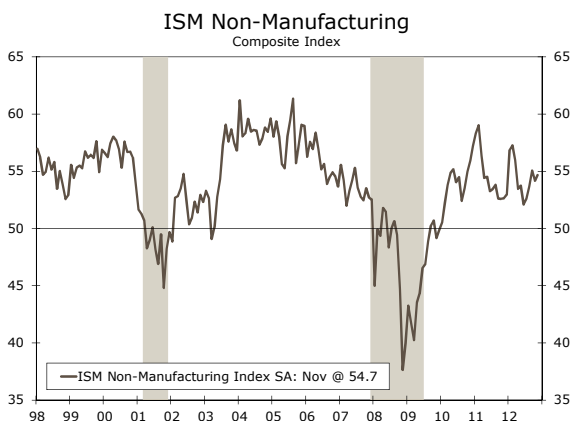
Two of the four components that make up the non-manufacturing survey's headline increased, while two others declined. Business activity shot up 5.8 points to a stellar 61.2, marking its highest level since February. Thirty-one percent of businesses surveyed said that business activity improved in November, while just 14 percent reported that it decreased. The ISM noted that the greatest improvement in November occurred in agriculture, forestry, real estate, financial services and public administration. While not in the top five, construction activity also increased. The gains in four of the top five sectors are likely linked to improvements in homebuilding.

The same pattern is evident in new orders, which rose 2.3 points to 58.1 in November. Agriculture, forestry, arts and entertainment, retail trade and real estate round out the top five industries noting gains in new orders. Construction was once again not in the top five but still noted an increase.

The other two components that make up the non-manufacturing survey declined during the month. The supplier delivery index fell 2.5 points, which indicates that more firms noted that delivery times shortened during the month. This suggests that Hurricane Sandy had relatively little impact on the November data.

The employment component fell 4.6 points to 50.3 in November, with the most significant declines occurring in arts and entertainment, mining, management of companies and support services, professional and technical services, and hotels and restaurants. By contrast, hiring rose in agriculture, forestry, construction, retail trade and other services.

The split in the ISM non-manufacturing series may cause some people to misinterpret this month's report. While the overall index rose in November, the service sector appears to have slowed, particularly in the largest employment categories, such as business and professional services. Much of this past month's gain appears to be tied to the budding recovery in housing and late harvest in the farm sector. Construction payrolls should increase, but the latter will do little to boost nonfarm employment. We have actually trimmed our estimate for November payrolls to a gain of just 65,000 jobs and look for the unemployment rate to rise to 8.0 percent.



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