November 05, 2013

Economics Group

John E. Silvia, Chief Economist
john.silvia@wellsfargo.com • (704) 410-3275
Tim Quinlan, Economist
tim.quinlan@wellsfargo.com • (704) 410-3283

ISM Non-Manufacturing Speaks No Evil

Business activity in the service sector accelerated in October according to the ISM non-manufacturing survey. Confidence was apparently unshaken by the government shutdown during the first half of the month.

Business Sector Taking Things in Stride

In the autumn of 2012, around the time of last year's congressional tussle, there was a lot of concern over the fiscal cliff. Those concerns resulted in the manufacturing PMI falling into contraction territory in the month of November, though the non-manufacturing PMI was more resilient falling to 54.8 for both October and November before returning to 55+ readings in December and January. The PMIs have been more resilient in the face of this year's government shutdown with the October manufacturing measure coming in at 56.4 and today's non-manufacturing measure coming in at 55.4. It may be that businesses are simply accepting the brinksmanship as the new normal, or perhaps the businesses surveyed are just not immediately impacted by the government shutdown.

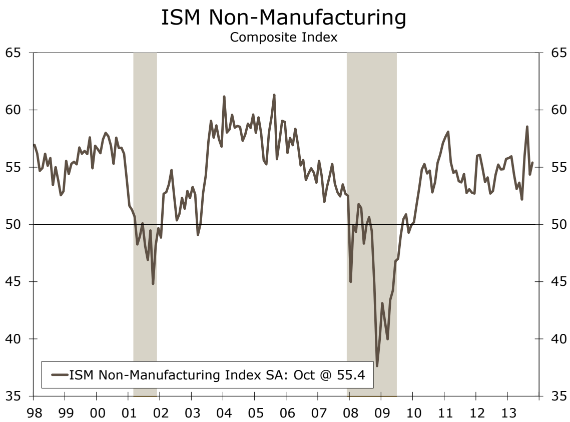
While acknowledging that these surveys tell us that that businesses are unfazed, we maintain some skepticism about the outlook for business spending when we see the recent weakness in manufacturing production (up just 0.1 percent in October) and yesterday's report of October factory orders (down for the second straight month after stripping out transportation orders). Speaking of orders, the new orders component in today's report fell but remains firmly in expansion territory at 56.8. Last month, we observed that the export orders component was driving the strength in overall orders, but that switched in October. Export orders slowed to 53.0 from 57.5 and import orders picked up to 55.0 from 51.5. So we cannot even say that business activity is being sustained by stronger global growth. The opposite is true, if these numbers are taken at face value; orders are being sustained by domestic demand.

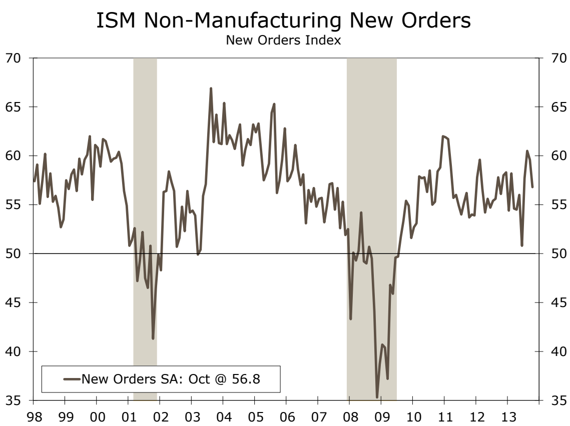
Employment Component, the Job Market and Grains of Salt

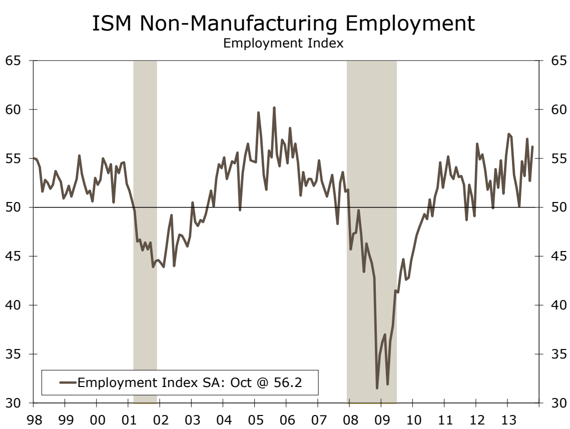
Today's ISM non-manufacturing report offers one of the last indicators of labor market health going into Friday's all-important employment report. Having gone seven months with sub-200K job growth, we already know that job growth has been mediocre this year.

Unfortunately, the pace of job growth is testing our ability to come up with new synonyms for slow. In the first six months of the year, monthly nonfarm employment growth averaged 194,800 new jobs per month. In the third quarter, that figure came in at just 143,300.

Puzzlingly, weekly claims for unemployment insurance have trended lower for most of that period, though recent claims figures have to be discounted due to computer glitches in some big states. Today's ISM non-manufacturing report tells us that the employment component climbed to 56.2, a level that ordinarily would signal robust job growth. Either we are poised for great job gains, or the recent survey data may need to be taken with a grain of salt.







Source: Institute for Supply Management and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

Diane Schumaker-Krieg	Global Head of Research, Economics & Strategy	(704) 410-1801 (212) 214-5070	diane.schumaker@wellsfargo.com
John E. Silvia, Ph.D.	Chief Economist	(704) 410-3275	john.silvia@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Jay H. Bryson, Ph.D.	Global Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Currency Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Eugenio J. Alemán, Ph.D.	Senior Economist	(704) 410-3273	eugenio.j.aleman@wellsfargo.com
Anika R. Khan	Senior Economist	(704) 410-3271	anika.khan@wellsfargo.com
Azhar Iqbal	Econometrician	(704) 410-3270	azhar.iqbal@wellsfargo.com
Tim Quinlan	Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Michael A. Brown	Economist	(704) 410-3278	michael.a.brown@wellsfargo.com
Sarah Watt	Economist	(704) 410-3282	sarah.watt@wellsfargo.com
Michael T. Wolf	Economist	(704) 410-3286	michael.t.wolf@wellsfargo.com
Sara Silverman	Economic Analyst	(704) 410-3281	sara.silverman@wellsfargo.com
Zachary Griffiths	Economic Analyst	(704) 410-3284	zachary.griffiths@wellsfargo.com
Mackenzie Miller	Economic Analyst	(704) 410-3358	mackenzie.miller@wellsfargo.com
Blaire Zachary	Economic Analyst	(704) 410-3359	blaire.a.zachary@wellsfargo.com
Peg Gavin	Executive Assistant	(704) 410-3279	peg.gavin@wellsfargo.com
Cyndi Burris	Senior Admin. Assistant	(704) 410-3272	cyndi.burris@wellsfargo.com

WELLS FARGO SECURITIES