ISM U.S. NON-MANUFACTURING SENTIMENT INDEX DECLINES IN NOVEMBER

*The ISM U.S. Non-Manufacturing Sentiment Index declined by 0.8pt to 53.0 in November, slightly below expectations (consensus: 54.5), and the third lowest reading this year (Chart 1). The index appears to be stabilizing modestly below 55.0, indicating that the sector that accounts for the bulk of U.S. economic activity continues to expand, but at a markedly slower pace than it did in 2018 when the index averaged 58.9, consistent with the deceleration in real GDP growth to 2% (Chart 1).

*The details of the ISM non-manufacturing survey were mixed in November – although only 12 out of 18 non-manufacturing industries reported growth, the smallest share since January, only three of the 10 subindexes declined and two remained in contraction territory (Chart 2).

*The published comments from respondents about near-term activity were mostly positive and a couple of respondents highlighted the continued negative impact of tariffs (see below).

The ISM Composite Index, which combines the ISM non-manufacturing and manufacturing indexes (declined by 0.2pt to 48.1 in November) based on their respective sector weights in GDP, decreased by 0.8pt to 53.2, a level that has historically been associated with 1.9% real GDP growth (Chart 3).

The ISM non-manufacturing business activity index, which drove the decline in the headline index, tumbled by 5.4pts to 51.6 in November, the lowest level since November 2009 when the economy was just climbing out of recession. At 51.6, the index suggests that non-manufacturing activity barely expanded in November, reflecting a sharp deceleration from late 2018 when the index approached 65. On the flip side, the ISM new orders index, which tends to fall persistently in the lead-up to recessions, rose for the second consecutive month by 1.5pts to 57.1 pts (Chart 4). According to the ISM, respondents’ comments included, “people want to spend their budgets by the end of the year.”

The backlog of orders index remained unchanged at 48.5 in November, the third time in contraction territory in four months, suggesting that the chances of a strong rebound in business activity growth in the near term are relatively slim.

The employment index has increased by a cumulative 5.1pts since September to 55.5, which bodes well for the November Official Employment Report set for release on Friday, December 6. The index has averaged 55.0 thus far in 2019, down from 56.9 in 2018, consistent with the slowdown in average monthly private non-manufacturing job growth to 151k this year from 193k in 2018 (Chart 5).

The imports index declined for the fourth consecutive month in November, by 3.5pt to 45.0, reflecting a combination of a payback from the earlier acceleration in imports in advance of anticipated tariffs and a slowdown in domestic demand. The exports index increased by 2pts to 52.0, consistent with sluggish global trends.

**Key published comments from respondents to the survey:**

- “Activity is still up in all areas, but primarily in commercial construction.”

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“Lower reimbursement rates will continue to affect funding levels.” (Health Care & Social Assistance)
“Tariffs are impacting prices for a broad array of products used in the delivery of services and completion of projects for our clients. Upward pressure is impacting suppliers and their pricing to customers. We are seeing no relief from our customers, so we’re being negatively impacted by tariff-driven price increases. Numerous suppliers report looking for alternative manufacturing/supply locations outside of China, but with limited or no success so far.” (Management of Companies & Support Services)
“Tariffs on steel and aluminum are still having a negative impact on costs. Oil and gas business is increasing, which is favorably impacting our orders.” (Other Services)
“We’re optimistic [because the] economy appears to be on autopilot, despite all the political distractions. Stock market seems invincible, [and the] trade war with China appears to be in a stalemate. Job growth appears to be reaching an equilibrium point. Final economic demand appears strong, with positive spend forecast for the holidays.” (Professional, Scientific & Technical Services)
“Fourth-quarter seasonal retail volume increase is affecting labor hours, temporary labor demand, and availability of short-term rental trailers to compensate for overflow.” (Transportation & Warehousing)
Chart 2: Number of Non-Manufacturing Industries Reporting Growth

Source: Institute for Supply Management/Haver Analytics

Chart 3: ISM Composite Index vs. Real GDP Growth (year-over-year, %)

Source: Monthly and Quarterly data from Institute for Supply Management, Bureau of Economic Analysis, and Haver Analytics
Chart 4: ISM Non-Manufacturing New Orders Index

Source: Institute for Supply Management/Haver Analytics

Source: Monthly data. Source: Institute for Supply Management and Haver Analytics

Chart 5: ISM Non-Manufacturing Employment Index

Source: Institute for Supply Management/Haver Analytics

Source: Monthly data. Source: Institute for Supply Management and Haver Analytics
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