HIGHLIGHTS

- The ISM non-manufacturing index fell from 58.6 in August to 54.4 in September.
- Of the seven components that posted declines, current production (-7.1 points) and employment (-4.3 points) posted the steepest drops. The component tied to new orders was down only 0.9 of a point.
- Exports and prices were the only components that expanded.

COMMENTS

While the ISM manufacturing index blew past expectations with a fourth consecutive increase in September, the steeper than expected drop in the ISM non-manufacturing index is, at first glance, worrisome. The 4.2-point contraction is the sharpest decline since November 2008, the apex of the financial crisis.

The situation is not as dramatic as it was during the recession, however. Despite this monthly decline, the ISM non-manufacturing index is still at a relatively good level, far enough from the 50-mark that denotes the threshold between growth and a contraction in economic activity. At 54.4, this reading is not disastrous—it is the exact average of the previous 24 months.

It would not be surprising if the relative weakness of the ISM non-manufacturing index in September was related to the current crisis rattling Washington. Uncertainties about the funding of federal government activities as of October 1 could have created worries in several non-manufacturing industries last month. The impact of rising interest rates on the housing market could also be another source of concerns.

The worst aspect of the results posted by the ISM non-manufacturing index is the 4.3-point drop in the employment component, which hit its lowest level since May 2013. This contrasts with an almost equivalent gain (+2.1 points) in the same component on the ISM manufacturing side.

Implications: The decline in the ISM non-manufacturing index offsets the increase on the manufacturing side. Overall, both indexes are still at relatively good levels that suggest expansion in the private sector is continuing. It remains to be seen if the political impasse in Washington will be cleared up in time to limit the adverse effects that could ripple through to the wider economy.

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