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Service Industries in U.S. Expand at Faster Pace

By Bob Willis - Dec 3, 2010

Service industries expanded in November at the fastest pace in six months, showing the U.S. recovery is broadening out as the year comes to a close.

The Institute for Supply Management's non-manufacturing [index](#), which covers about 90 percent of the economy, rose to 55 last month from 54.3 in October. A reading higher than 50 signals growth.

[Target Corp.](#) is among retailers seeing stronger sales during the holiday-shopping season, testament to the gains in spending needed to encourage American companies to step up hiring. A report from the Labor Department today showed the economy generated fewer jobs last month than forecast, while the jobless rate rose to the highest level since April.

"The economy is improving," said [Jeffrey Roach](#), chief economist at Horizon Investments in Charlotte, North Carolina. "It's a sluggish recovery. The consumer is starting to spend, starting to show renewed confidence in the recovery."

The median forecast of 76 economists surveyed by Bloomberg News projected the ISM index would rise to 54.8. Estimates ranged from 52.3 to 59.4.

Stocks trimmed losses and Treasury securities rose after the report. The [Standard & Poor's 500 Index](#) fell 0.2 percent to 1,219.27 at 10:39 a.m. in New York. The yield on the benchmark 10-year Treasury note, which moves inversely to price, fell to 2.96 percent from 2.99 percent late yesterday.

November Employment

Employers added 39,000 workers to their payrolls in November, fewer than the most pessimistic projection of economists surveyed by Bloomberg, Labor Department figures showed today. The [unemployment rate](#) increased to 9.8 percent from 9.6 percent. In October 2009, joblessness rose to a 26-year high of 10.1 percent.

The ISM non-manufacturing [employment](#) gauge rose to 52.7, the highest since October 2007, from 50.9 a month earlier. The measure of new orders increased to 57.7, the highest since April, from 56.7. Business activity eased to 57 from 58.4.

The ISM's index of prices paid fell to 63.2 from 68.3 a month earlier.

The services survey covers industries that range from utilities and merchants to health care, housing, finance and transportation. The group's [factory index](#), released Dec. 1, fell to 56.6 last month from 56.9 in October.

The services index averaged 56.1 in the five years to December 2007, when the last recession began. It averaged 51.6 since the current recovery started in June 2009 through October, trailing the 55.2 reading for the ISM [manufacturing index](#) during the same period.

Consumer Spending

The recovery from the worst recession since the 1930s has been led by manufacturing as exports climbed, business investment picked up and inventories were replenished. While the housing industry remains a weak link, consumer spending, which accounts for 70 percent of the economy, has been picking up.

The Federal Reserve, in its latest survey of regional economies, said Dec. 1 the economy gained strength across much of the U.S. as hiring improved, manufacturing expanded and retailers anticipated a stronger holiday shopping season. The survey covered the period from early October to mid-November.

Sales at Target, [Limited Brands Inc.](#) and [Costco Wholesale Corp.](#) grew more than analysts estimated in November as more confident consumers snapped up discounted merchandise, particularly during the Thanksgiving weekend.

Estimated sales for Thanksgiving and the three days after the U.S. holiday reached \$45 billion, a 9.1 percent gain from a year ago, as the number of shoppers rose 8.7 percent to 212 million, according to the National Retail Federation.

November Sales

"November sales were better than expected, driven by very strong guest traffic throughout the month," [Gregg Steinhafel](#), chief executive officer at Target, said yesterday in a statement.

At the same time, construction is among the industries that have weighed on the ISM non-manufacturing survey as home sales hover near historic lows. New homes sold at a 283,000 annual rate in October, near an all-time low and down from a recent peak of 1.39 million in July 2005.

"New home sales are extremely low," [Larry W. Seay](#), chief financial officer at [Meritage Homes Corp.](#), said on a Nov. 11 teleconference. "The reason that sales are so low is due to fear" that would-be buyers "might lose their job."

As part of an effort to reach out to some of the nation's largest employers, President [Barack Obama](#) met with Wal-Mart Stores Inc. Chief Executive Officer [Mike Duke](#) at the White House on Nov. 29. The meeting is one of a series of sessions aimed at soliciting the views of companies, with the goal of

spurring the recovery and adding jobs.

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