

February ISM Non-Manufacturing Index

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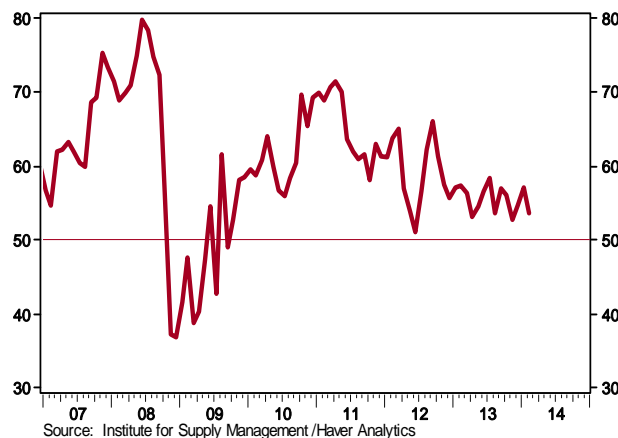
- The ISM non-manufacturing index declined to 51.6 in February, coming in below the consensus expected 53.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in February, while most remain above 50. The employment index slipped to 47.5 from 56.4, the lowest reading for the index in four years, while the business activity index fell to 54.6 from 56.3. The supplier deliveries index moved higher to 53.0 from 52.5. The new orders index rose to 51.3 from 50.9.
- The prices paid index declined to 53.7 in February from 57.1 in January.

Implications: After a surprise on the upside from the ISM manufacturing report, today's ISM service sector report surprised to the downside. Although, at 51.6, the report still showed expansion in the service sector, the report came in below consensus expectations. The business activity index – which has a stronger correlation with economic growth than the overall index – dipped to 54.6, a level that continues to signal solid economic growth. The worst news in today's report was an 8.9 point decline in the employment index, to 47.5. After hitting a three year high last month, the employment index now stands at its lowest level since March of 2010. Many of the industries reporting a slowdown in employment; mining, real estate, and entertainment & recreation, to name a few, were hit hard by continued unusually cold (and snowy) weather. As the cold season comes to an end, expect employment in these industries to pick back up as companies and consumers make up for lost time. On the inflation front, the prices paid index dropped to 53.7 in February from 57.1 in January. Still no sign of runaway inflation, but given loose monetary policy, we expect this measure to move upward over the coming year. In other news this morning, the ADP index, a measure of private payrolls, increased 139,000 in February. Plugging this into our payroll models brings our forecast for the official report on Friday to 151,000 nonfarm, 150,000 private. (Tomorrow's report on unemployment claims may alter this forecast slightly.) In other recent news, sales of autos and light trucks increased 0.7% in February but were unchanged from a year ago. Look for faster gains in the months ahead as buyers make up for shopping days lost to bad weather.

ISM Nonmanufacturing: NMI Composite Index
 SA, 50+=Increasing



ISM: Nonmfg: Prices Index
 SA, 50+ = Econ Expand



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Feb-14	Jan-14	Dec-13	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	51.6	54.0	53.0	52.9	53.7	54.8
Business Activity	54.6	56.3	54.3	55.1	55.9	56.3
New Orders	51.3	50.9	50.4	50.9	53.8	56.0
Employment	47.5	56.4	55.6	53.2	54.0	55.5
Supplier Deliveries (NSA)	53.0	52.5	51.5	52.3	51.2	51.5
Prices	53.7	57.1	54.7	55.2	55.2	57.4

Source: Institute for Supply Management