

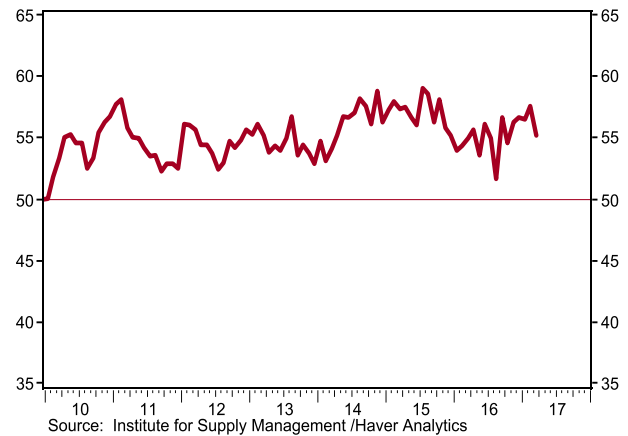
March ISM Non-Manufacturing Index

Brian S. Wesbury – Chief Economist
 Robert Stein, CFA – Dep. Chief Economist
 Strider Elass – Economist

- The ISM non-manufacturing index declined to 55.2 in March, coming in below the consensus expected 57.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in March, but all remain above 50, signaling expansion. The business activity index fell to 58.9 from 63.6 in February, while the employment index declined to 51.6 from 55.2. The new orders index moved lower to 58.9 from 61.2 in February. The supplier deliveries index rose to 51.5 from 50.5.
- The prices paid index declined to 53.5 from 57.7 in February.

Implications: Service sector activity grew for an 87th consecutive month in March, though at a slightly slower pace than in recent months. While March’s reading of 55.2 represents the slowest pace of expansion since before the election, it still represents healthy growth from a key sector of the economy. And the growth remains broad-based, with fifteen of eighteen industries reporting growth. The two most forward looking indices – new orders and business activity – both showed a slower pace of expansion in March, but there is little reason for concern. The majority of survey respondents indicated a positive outlook for the coming months, and the continued growth in new orders will keep companies busy. The employment index also declined in March, which comes in contrast to the strong ADP report also out this morning (more on that below) and initial claims reports that continue to trend near historic low levels. We do expect employment growth will eventually moderate as the labor market tightens, but the tax and regulatory reforms promised by the new administration should provide a tailwind across the service sector. On the inflation front, the prices paid index declined to 53.5 in March from 57.7 in February, despite more than twenty commodities showing rising prices and just three showing declines. The service sector continues to grow, manufacturing activity is picking up, and employment and inflation show an economy headed in a positive direction. In other news this morning, the ADP index says private-sector payrolls increased 263,000 in March, easily beating consensus expectations. Plugging these data into our payroll models suggests the Labor Department’s official report to be released Friday will show a nonfarm payroll gain of about 200,000. This forecast may change slightly based on tomorrow’s report on unemployment claims.

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



ISM Nonmanufacturing: Prices Index
 SA, 50+ = Economy Expanding



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Mar-17	Feb-17	Jan-17	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	55.2	57.6	56.5	56.4	56.1	54.9
Business Activity	58.9	63.6	60.3	60.9	60.4	59.7
New Orders	58.9	61.2	58.6	59.6	59.1	57.4
Employment	51.6	55.2	54.7	53.8	53.6	51.5
Supplier Deliveries (NSA)	51.5	50.5	52.5	51.5	51.5	51.0
Prices	53.5	57.7	59.0	56.7	56.3	50.0

Source: Institute for Supply Management

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.