

February ISM Non-Manufacturing Index

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- The ISM non-manufacturing composite index increased to 57.3 in February, beating the consensus expected decline to 56.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were mixed in February. The new orders index rose to 61.2 from 59.4 and the business activity index increased to 62.6 in February from 59.5. The employment index fell to a still strong 55.7 from 57.4 and the supplier deliveries index fell to 49.5 from 51.0.
- The prices paid index rose to 68.4 in February from 63.5 in January.

Implications: Great news on the service sector! The ISM services index once again beat consensus expectations, coming in at 57.3, the highest level in a year. The sector has now shown expansion for 26 straight months and is growing at a very rapid rate. The business activity index, which has an even stronger correlation with real GDP growth than the overall index, boomed in February, coming in at 62.6. With the exception of one month back in early 2011, this is the highest level for the activity index since 2005. The new orders index also took off, rising to 61.2, the highest level in a year. Although the employment index fell, it still shows expansion. Pending Wednesday's ADP Employment report, we expect this Friday's official Labor Department report to show a gain of 240,000 in private sector payrolls. On the inflation front, the prices paid index rose to 68.4 after rising to 63.5 last month. These reports signal increasing inflation pressure and make it harder for the Federal Reserve to justify the very loose stance of monetary policy. Bottom line: with an improving pace of economic growth and more inflation, another round of quantitative easing is simply not going to happen.

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-12	Jan-12	Dec-11	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	57.3	56.8	53.0	55.7	54.2	59.0
Business Activity	62.6	59.5	55.9	59.3	57.4	65.4
New Orders	61.2	59.4	54.6	58.4	56.4	62.8
Employment	55.7	57.4	49.8	54.3	52.2	55.8
Supplier Deliveries (NSA)	49.5	51.0	51.5	50.7	50.6	52.0
Prices	68.4	63.5	62.0	64.6	63.7	70.9

Source: Institute for Supply Management