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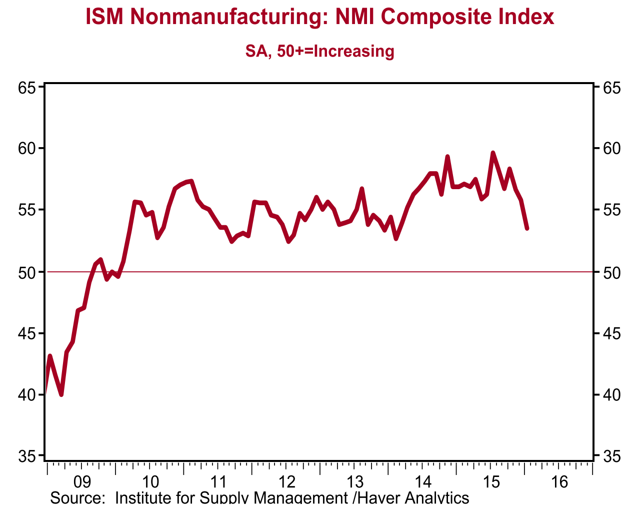
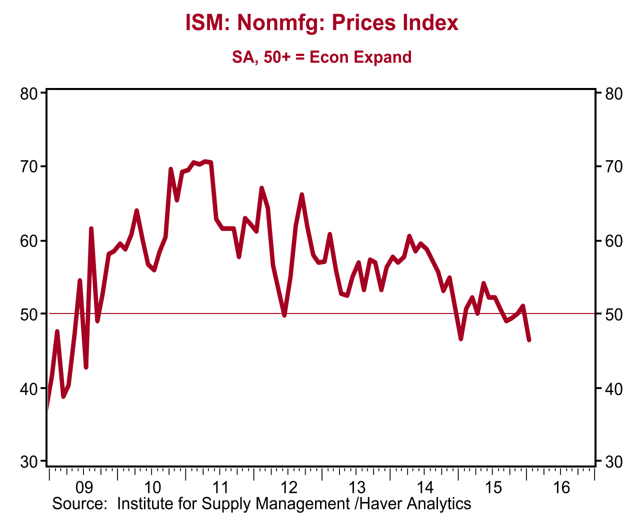
January ISM Non-Manufacturing Index

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

- The ISM non-manufacturing index declined to 53.5 in January from 55.8 in December, coming in below the consensus expected 55.1. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in January, though all stand above 50, signaling growth. The business activity index fell to 53.9 from 59.5 while the employment index declined to 52.1 from 56.3 in December. The new orders index slipped to 56.5 from 58.9. The supplier deliveries index rose to 51.5 from 48.5.
- The prices paid index fell to 46.4 in January from 51.0 in December.





Implications: Activity in the service sector grew for a 72nd consecutive month in January. Let that sink in for a second. The largest sector of the U.S. economy has been reporting steady growth every month for the past six years. This marks a stark contrast from the manufacturing sector, where recent readings have indicated contraction. The ISM Services number came in 53.5 for January, short of consensus expectations, and represents a slight slowdown in the pace of growth (remember, levels above 50 signal expansion, so January's reading represents continued growth, but at a slower rate than in recent months). However, every year from 2010 through 2014, in all of which the economy kept growing, included months with at least one lower reading than 53.5. In other words, today's report doesn't indicate that the US economy is headed for a recession. The underlying details of the report show activity remains resilient. The new orders index, a signal of how business activity and employment are likely to move in coming months to fill demand, came in at 56.5 in January. In other words, it looks like service sector growth should continue in the months ahead. And while business activity and employment showed a slower pace of growth to start 2016, the majority of comments from survey respondents were positive about the business outlook. On the inflation front, the prices paid index dipped back below 50, with respondents citing continued declines in energy prices and a strong dollar pushing down meat prices. In sum, steady growth from the service sector, paired with positive trends in employment, earnings, and home building, keep the plow horse economy plodding forward. In other news this morning, ADP says private-sector increased payrolls 205,000 in January. Plugging this into our models suggests Friday's official report will show a nonfarm gain of 192,000, although our forecast may change based on tomorrow's data on unemployment claims. Yesterday, automakers reported they sold cars and light trucks at a 17.6 million annual rate in January, an increase of 1.4% versus December and up 5.2% from a year ago. What's remarkable is that sales rose despite a massive late-month snowstorm on the East Coast, which suggests auto sales will be even stronger in February. Look for auto sales to hit a new record high in 2016.

Non-Manufacturing ISM Index *Seasonally Adjusted Unless Noted*	Jan-16	Dec-15	Nov-15	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Composite Index	**53.5**	55.8	56.6	55.3	56.5	56.9
Business Activity	**53.9**	59.5	59.4	57.6	59.5	61.3
New Orders	**56.5**	58.9	57.9	57.8	58.8	60.0
Employment	**52.1**	56.3	56.0	54.8	56.2	52.1
Supplier Deliveries (NSA)	**51.5**	48.5	53.0	51.0	51.7	54.0
Prices	**46.4**	51.0	50.0	49.1	49.4	46.5

Source: Institute for Supply Management