

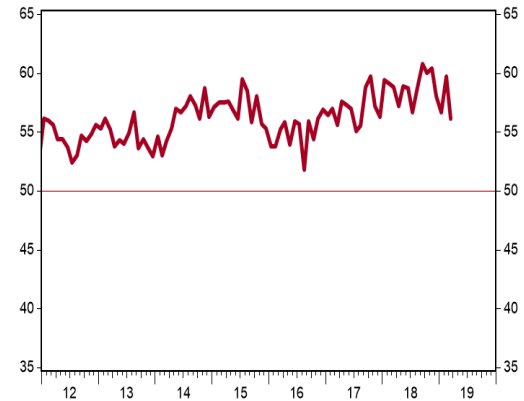
March ISM Non-Manufacturing Index

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- The ISM non-manufacturing index declined to 56.1 in March, below the consensus expected 58.0. (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 57.4 from 64.7 in February, while the new orders index declined to 59.0 from 65.2. The supplier deliveries index moved lower to 52.0 from 53.5 in February. The employment index rose to 55.9 from 55.2.
- The prices paid index rose to 58.7 from 54.4 in February.

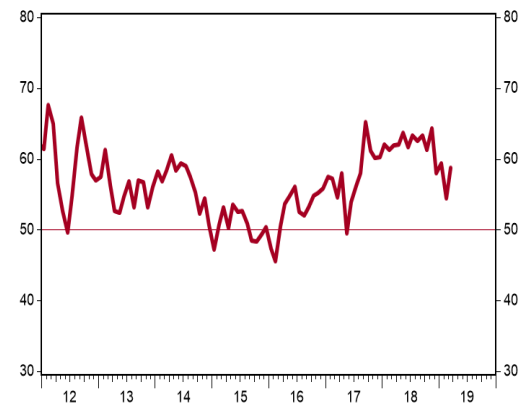
Implications: Following February’s booming report, activity in the service sector continued to grow in March, though at a slower pace. Sixteen of eighteen sectors reported growth in March, while two – educational services and retail trade – reported contraction. Growth would have been faster, but for difficulties in finding qualified labor to fill open positions. In fact, a look at the respondent comments shows activity has largely met or exceeded expectations to start the year, despite weather-induced headwinds. In other words, the March slowing in the pace of growth is nothing to worry about, and expansion remains on track. The most negative news in today’s report was that the two most forward-looking indices – new orders and business activity – led the decline in March. That isn’t that surprising given that both indices showed multi-year large increases in February. And here too, growth remains broad-based, with two-thirds of the industries reporting expansion in both activity and new orders. Add in a combination of backorders that still need to be filled, and manufacturers already running at or near full capacity, and these measures should remain elevated in the coming months. Companies are investing, but it takes time for new capacity to come online. Shortages are impacting prices too, which continued to rise in March. Qualified labor (most notably in construction) continues to represent one of the largest shortages companies are reporting. Despite the labor shortages, hiring activity accelerated in March, with the employment index rising to 55.9 from 55.2 in February. Pairing this data, along with the ADP employment report out this morning that showed private payroll gains of 129,000 in March, we expect Friday’s jobs report will show non-farm payroll gains of around 145,000. That represents a rebound from February’s abnormally low reading of 20,000 and a return towards trend growth. In other recent news, automakers reported selling cars and light trucks at a 17.5 million annual rate in March, easily beating consensus expectations. Sales were up 5.3% from February and 1.0% from a year ago. However, sales for all of the first quarter averaged a 16.9 million annual rate versus a 17.2 million pace in 2017 and 2018. We anticipate slower sales in the years ahead as consumers shift their spending to other sectors.

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



Source: Institute for Supply Management/Haver Analytics

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



Source: Institute for Supply Management/Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Mar-19	Feb-19	Jan-19	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	56.1	59.7	56.7	57.5	58.5	58.8
Business Activity	57.4	64.7	59.7	60.6	61.7	60.8
New Orders	59.0	65.2	57.7	60.6	61.5	59.4
Employment	55.9	55.2	57.8	56.3	57.0	56.3
Supplier Deliveries (NSA)	52.0	53.5	51.5	52.3	53.8	58.5
Prices	58.7	54.4	59.4	57.5	59.4	61.9

Source: Institute for Supply Management