

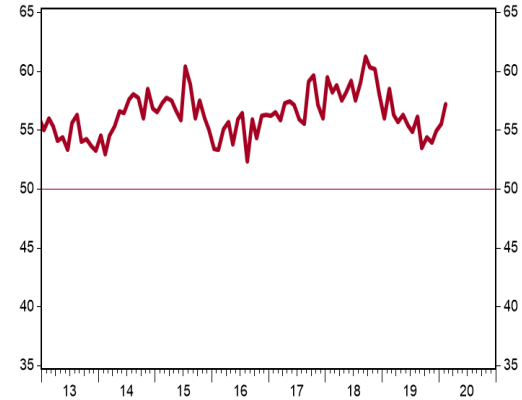
February ISM Non-Manufacturing Index

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- The ISM Non-Manufacturing index increased to 57.3 in February, easily beating the consensus expected 54.8. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in February, and all stand above 50, signaling growth. The new orders index surged to 63.1 from 56.2 in January, while the employment index rose to 55.6 from 53.1. The supplier deliveries index increased to 52.4 from 51.7 in January. The business activity index declined to 57.8 from 60.9.
- The prices paid index declined to 50.8 from 55.5 in January.

Implications: February showed the fastest pace of service sector growth in a year, as orders surged despite coronavirus concerns. And the growth was broad-based, with sixteen industries reporting growth, while only two showed decline. The two most forward-looking indices – business activity and new orders – moved in opposite directions in February. Orders surged 6.9 points – the largest monthly jump in more than two years – to a strong reading of 63.1. The business activity index, meanwhile, declined to a still healthy 57.8 in February, but it’s important to remember that levels above 50 signal growth, so it’s not that activity dropped in February, it simply grew at a slower pace. Respondents noted strong consumer demand and a pickup in activity from existing clients. The coronavirus did come up several times in respondent comments, both in terms of increased lead times as well as uncertainty related to demand in the months ahead. Unexpected events like the coronavirus can bring volatility to the data, especially with survey-based measures where emotion can play into responses. We continue to watch the data, but don’t anticipate a material change to the economic fundamentals, which should keep the service sector expanding at a healthy pace in the year ahead. Supplier deliveries are likely to be among the most effected measures of activity in the near term, both due to the increased demand from new orders as well as supply chain disruptions related to the coronavirus. This showed in February as the supplier deliveries index rose to 52.4 from 51.7 in January, indicating a slightly slower pace of deliveries to customers. The pickup in new orders also impacted employment in February, pushing the employment index up to 55.6 from 53.1 in January. Speaking of employment, the ADP index out this morning showed private-sector jobs increased 183,000 in February versus a consensus-expected 170,000. While we are waiting on tomorrow’s initial claims data to finalize our forecast, data so far suggest Friday’s employment report will show a print of around 175,000 nonfarm jobs added, a slowdown from the blowout 225,000 jobs added in January, but healthy growth nonetheless. With the tighter labor market, we anticipate that 2020 will average around 160,000 jobs added per month, eventually pushing the unemployment rate toward 3.2%, which would mark the lowest unemployment since the 1950s. On the inflation front, the prices paid index declined to 50.8 from 55.5 in January, as a drop in fuel costs was partially offset by rising prices for labor and medical supplies (think masks and gloves). As a whole, the data from both the manufacturing and service sectors show healthy economic activity, something to keep in mind as the media continues to fuel the fires of fear. In other news from earlier in the week, cars and light trucks were sold at a 16.8 million annual rate in February, down 0.5% from January but up 1.9% from a year ago. Look for sales of around 16.7 million in 2020, as consumers gradually shift their ample purchasing power 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>	Feb-20	Jan-20	Dec-19	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	57.3	55.5	54.9	55.9	54.9	58.5
Business Activity	57.8	60.9	57.0	58.6	56.7	62.9
New Orders	63.1	56.2	55.3	58.2	56.9	62.0
Employment	55.6	53.1	54.8	54.5	54.0	55.6
Supplier Deliveries (NSA)	52.4	51.7	52.5	52.2	51.9	53.5
Prices	50.8	55.5	59.3	55.2	56.8	54.3

Source: Institute for Supply Management