

February ISM Non-Manufacturing Index

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- The ISM non-manufacturing index increased to 56.0 in February, beating the consensus expected dip to 55.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The direction of the key sub-indexes was mixed in February, but all remain above 50. The new orders index rebounded to 58.2 from 54.4 and the business activity index rose to 56.9 from 56.4. The employment index slipped to 57.2 in February from 57.5 while the supplier deliveries index declined to 51.5 from 52.5.
- The prices paid index rose to 61.7 in February from 58.0 in January.

Implications: Today's ISM Services report shows improving sentiment by companies in that sector. This upside surprise, in combination with the positive surprise with last week's ISM Manufacturing report, severely undermines the theory that fear about the federal spending sequester is hurting the economy. If anything, fear-mongering should have more of an effect on surveys like these than on actual economic activity. So if these surveys haven't been beaten down, it's very unlikely the economy is slowing. The ISM Services index rose to 56.0 in February from 55.2 in January, hitting the highest level in a year and beating consensus expectations that it would slip slightly to 55.0. The report is the 38th consecutive reading above 50, signaling expansion. The business activity index, – which has a stronger correlation with economic growth than the overall index – rose to 56.9. On the inflation front, the prices paid index rose to 61.7, the highest in five months. Given the loose stance of monetary policy, inflation should continue to move higher over the coming years. Other recent economic news has also been good. According to Autodata, cars and light trucks were sold at a 15.4 million annual rate in February, up 0.6% from January and 6.1% from a year ago. With the exception of the temporary surge in sales in November after Superstorm Sandy – the storm postponed some sales from October into November – this was the fastest pace of auto sales since the end of 2007. Along with other data, these figures suggest a growth rate of 2.0 – 2.5% in real personal consumption in Q1. Meanwhile, we're still forecasting 2.5% real GDP growth for Q1. Again, still no sign of a weakening consumer or economy due to either the fiscal cliff deal or supposed concerns about the federal spending sequester.

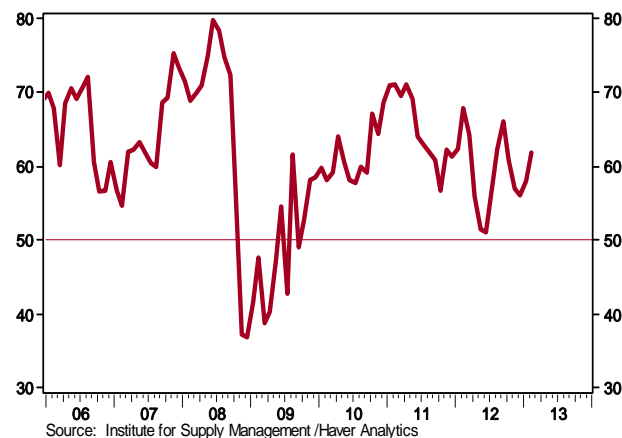
ISM Nonmanufacturing: NMI Composite Index

SA, 50+=Increasing



ISM: Nonmfg: Prices Index

SA, 50+ = Econ Expand



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Feb-13	Jan-13	Dec-12	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	56.0	55.2	55.7	55.6	55.3	56.1
Business Activity	56.9	56.4	60.8	58.0	58.6	60.3
New Orders	58.2	54.4	58.3	57.0	57.1	59.6
Employment	57.2	57.5	55.3	56.7	54.7	54.9
Supplier Deliveries (NSA)	51.5	52.5	48.5	50.8	50.8	49.5
Prices	61.7	58.0	56.1	58.6	59.9	67.9

Source: Institute for Supply Management