

## February ISM Non-Manufacturing Index

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- The ISM non-manufacturing index increased to 56.9 in February from 56.7, coming in above the consensus expected 56.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in February, but all remain above 50. The employment index rose to 56.4 from 51.6 while the supplier deliveries index increased to 55.0 from 54.0. The new orders index declined to 56.7 from 59.5 while the business activity index dipped to 59.4 from 61.5.
- The prices paid index rose to 49.7 in February from 45.5 in January.

**Implications:** After a surprise on the low side from the ISM manufacturing report, today's ISM service sector report surprised to the upside. The February reading of 56.9 represents the 61st consecutive month above 50 (levels above 50 signal expansion; levels below 50 signal contraction), while the 56.8 average level over the past year represents the best twelve-month average going back to 2006. The strongest area in today's report came from the employment index, which jumped 4.8 points to 56.4 from 51.6 in January, suggesting employment continued to expand in February in spite of harsh weather, a bullish sign for job growth for the foreseeable future. Both the business activity index and the new orders index declined, but remain at levels suggesting healthy economic growth. On the inflation front, the prices paid index rose modestly in February, but inflation continued to be depressed by the drop in energy prices. With oil prices now steady to slightly higher and monetary policy still loose, we expect this inflation measure to move upward over the coming year. In other news this morning, the ADP index, which measures private sector payrolls, increased 212,000 in February. Plugging this into our models suggests the official Labor Department report (released Friday morning) will show a nonfarm payroll gain of 241,000 for February. However, we won't finalize our forecast until we see tomorrow morning's report on unemployment claims. Either way, it looks like another solid month for job growth. In other recent news, cars and lights trucks were sold at a 16.2 million annual rate in February, a drop of 2.6% versus January but up 5.4% from a year ago. Given unusually brutal winter weather in February, look for a sharp rebound in March, to about a 17.0 million rate.

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-15	Jan-15	Dec-14	3-month moving avg	6-month moving avg	Year-ago level
<b>Composite Index</b>	<b>56.9</b>	56.7	56.5	56.7	57.3	52.5
<b>Business Activity</b>	<b>59.4</b>	61.5	58.6	59.8	60.9	55.7
<b>New Orders</b>	<b>56.7</b>	59.5	59.2	58.5	59.4	53.0
<b>Employment</b>	<b>56.4</b>	51.6	55.7	54.6	56.0	48.4
<b>Supplier Deliveries (NSA)</b>	<b>55.0</b>	54.0	52.5	53.8	52.9	53.0
<b>Prices</b>	<b>49.7</b>	45.5	49.8	48.3	51.3	56.0

Source: Institute for Supply Management