

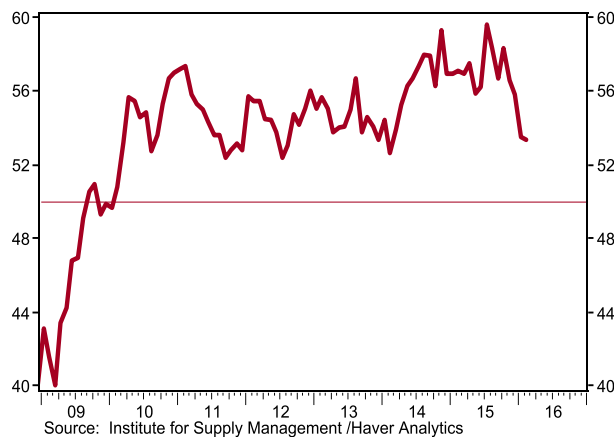
## February ISM Non-Manufacturing Index

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- The ISM non-manufacturing index declined to 53.4 in February from 53.5 in January, coming in above the consensus expected 53.1. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in February. The employment index fell to 49.7 from 52.1 while the new orders index declined to 55.5 from 56.5 in January. The supplier deliveries index slipped to 50.5 from 51.5. The business activity index rose to 57.8 from 53.9.
- The prices paid index fell to 45.5 in February from 46.4 in January.

**Implications:** Once again the ISM report on the service sector shows why putting pundits’ fears of a recession are overblown. Of the eighteen industries that the ISM surveys, fourteen reported growth in February, while only three – led once again by mining – reported contraction. Service sector activity has now grown for 73 consecutive months, and the new orders and business activity indexes show positive signs for the months ahead. This marks a stark contrast from the manufacturing sector, where recent readings, though stabilizing, have indicated contraction. And remember, the service sector is much larger than the manufacturing sector. The underlying details of the report show the service sector remains resilient. The business activity index rebounded from a January hiccup, rising 3.9 points to 57.8, very close to the 58.3 average seen over the past six years. The new orders index, a signal of how business activity and employment are likely to move in coming months to fill demand, fell slightly to a still respectable 55.5 in February. The surprise in today’s report was a decline in the employment index to 49.7, the first time that the index has dipped below 50, in nearly two years, signaling contraction. Despite the dip in today’s report, other employment indicators suggest that healthy jobs growth continued in February (we are forecasting nonfarm payroll growth of 223,000). On the inflation front, the prices paid index fell to 45.5 from 46.4 in January, with respondents citing continued declines in energy 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.

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



**ISM: Nonmfg: Prices Index**  
 SA, 50+ = Econ Expand



<b>Non-Manufacturing ISM Index</b> <i>Seasonally Adjusted Unless Noted</i>	<b>Feb-16</b>	<b>Jan-16</b>	<b>Dec-15</b>	<b>3-month moving avg</b>	<b>6-month moving avg</b>	<b>Year-ago level</b>
<b>Composite Index</b>	53.4	53.5	55.8	54.2	55.7	57.1
<b>Business Activity</b>	57.8	53.9	59.5	57.1	58.8	60.1
<b>New Orders</b>	55.5	56.5	58.9	57.0	57.7	57.6
<b>Employment</b>	49.7	52.1	56.3	52.7	55.1	55.6
<b>Supplier Deliveries (NSA)</b>	50.5	51.5	48.5	50.2	51.3	55.0
<b>Prices</b>	45.5	46.4	51.0	47.6	48.6	50.7

Source: Institute for Supply Management