February ISM Non-Manufacturing Index

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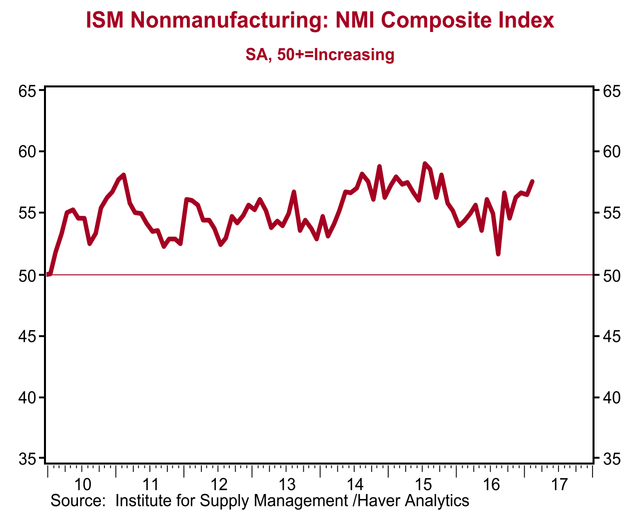
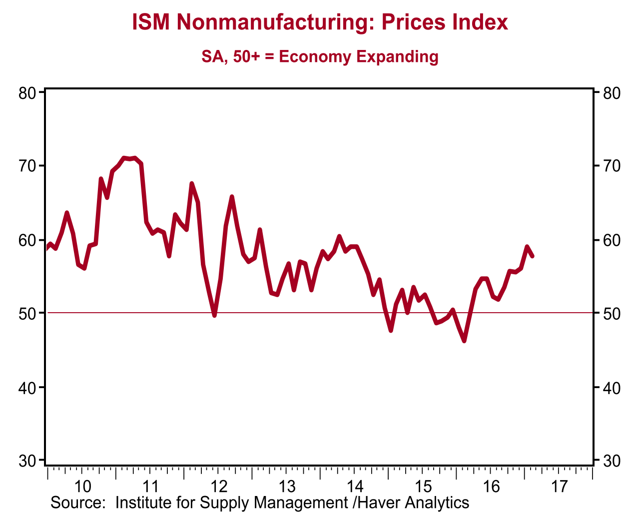
- The ISM non-manufacturing index rose to 57.6 in February, easily beating the consensus expected 56.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in February, and all remain above 50, signaling expansion. The business activity index rose to 63.6 from 60.3 in January, while the new orders index increased to 61.2 from 58.6. The employment index moved higher to 55.2 from 54.7 in January. The supplier deliveries index declined to 50.5 from 52.5.
- The prices paid index declined to 57.7 from 59.0 in January.

Implications: Service sector activity, manufacturing activity, inflation, and employment; it seems almost everywhere you look shows an economy heating up. Sixteen of eighteen industries reported growth in February, as the service sector expanded for an 86th consecutive month. Meanwhile, the two most forward looking indices – new orders and business activity – both showed a pick up in the pace of expansion in February, with business activity showing the fastest growth in six years. Employment also ticked higher in February, and while ADP and initial claims reports due out before next Friday's employment release may alter our forecast, it looks like nonfarm payrolls grew a healthy 177,000 in February, despite a hiring freeze by the federal government. We expect employment growth will moderate as the labor market tightens, but the tax and regulatory reforms promised by the new administration should provide a tailwind across the service sector. On the inflation front, the prices paid index declined to 57.7 in February from 59.0 in January, still representing the second highest reading (behind only last month) in more than two years. Rising costs for diesel fuel and bacon more than offset declining prices for beef and eggs. Barring an unusually poor employment report next week, it looks like the Fed will raise rates at the March 15 meeting. And it's totally appropriate. Three – or even four – rate hikes in 2017 would still leave monetary policy accommodative and stocks undervalued. In recent employment news, new claims for jobless benefits fell 19,000 last week to 223,000, the lowest weekly reading going all the way back to 1973. Continuing claims rose 3,000 to 2.07 million. In other recent news, automakers reported sales of cars and light trucks at a 17.6 million annual rate in February, a robust rate, but virtually unchanged from January and down a modest 0.7% from a year ago.





Non-Manufacturing ISM Index *Seasonally Adjusted Unless Noted*	Feb-17	Jan-17	Dec-16	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	**57.6**	56.5	56.6	56.9	56.4	54.3
Business Activity	**63.6**	60.3	60.9	61.6	60.5	58.3
New Orders	**61.2**	58.6	60.7	60.2	59.2	56.8
Employment	**55.2**	54.7	52.7	54.2	54.3	51.4
Supplier Deliveries (NSA)	**50.5**	52.5	52.0	51.7	51.4	50.5
Prices	**57.7**	59.0	56.1	57.6	56.3	46.1

Source: Institute for Supply Management