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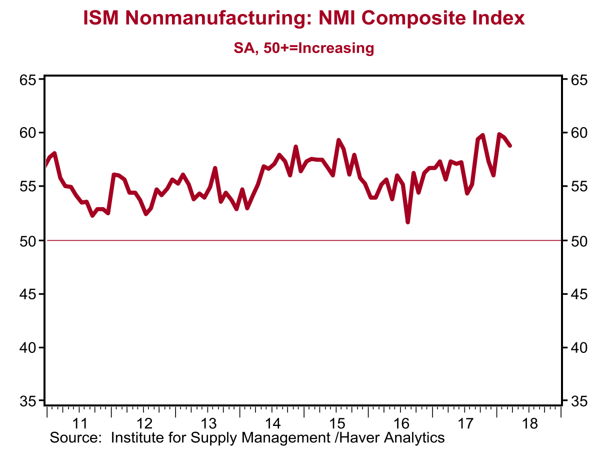
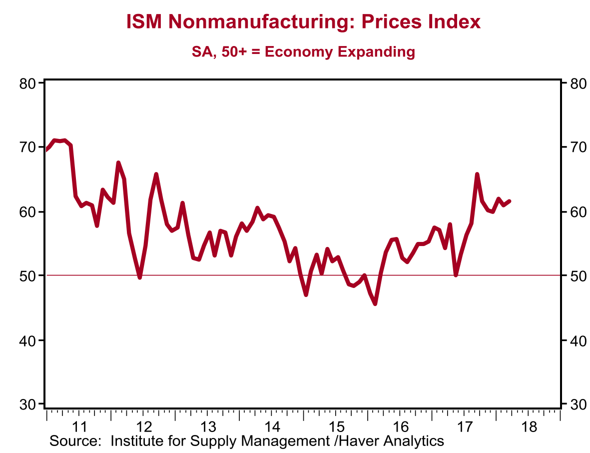
March ISM Non-Manufacturing Index

Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist
Strider Elass – Senior Economist

- The ISM non-manufacturing index declined to 58.8 in March, slightly lagging the consensus expected 59.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in March, but all remain well above 50, signaling expansion. The new orders index fell to 59.5 from 64.8 in February, while the business activity index declined to 60.6 from 62.8. The supplier deliveries index rose to 58.5 from 55.5 in February and the employment index increased to 56.6 from 55.0.
- The prices paid index increased to 61.5 from 61.0 in February.





Implications: The first quarter of 2018 had the highest average service sector reading since this ISM report began more than twenty years ago. That should be the headline you see touted across financial news, but don't be surprised if more attention is paid to the modest decline from the pace of growth reported in February. And the breadth of the expansion remained broad in March, with fifteen of eighteen industries reporting growth (two reported contraction). Although the most forward-looking indices – new orders and business activity – both declined in March, they remain well above their ten-year averages. Given the healthy readings near or above 60 over recent months, expect service sector activity to continue to hum along in the coming months. The supplier deliveries index rose in March to the highest reading since 2005. This reflects a combination of lingering impacts of hurricane activity (notably plants remaining closed in Puerto Rico), weather conditions on the east coast, and – most importantly - a pickup in orders and activity due to an accelerating economy. The prices paid index increased to 61.5 in March, with rising prices cited for copper and steel products. On the jobs front, the employment index rose to 56.6 from 55.0 in February. In other news this morning, the ADP index says private payrolls rose 241,000 in March. Plugging this into our models suggests Friday's official Labor Department report will show a nonfarm payroll gain of 155,000 versus a consensus expected 185,000. This may seem odd given the strong ADP report, but the Labor report does a better job of picking up temporary job losses due to snowstorms, which the East Coast was struck by during the survey week in March. Here's an example of why the initial ADP report is overrated: for March 2017, the original ADP report said private payrolls were up 263,000. Two days later Labor said nonfarm payrolls were up only 98,000. Then, later on, ADP revised their March report down to 122,000. Besides this reason to discount the ADP report, we also expect some payback for the very strong 313,000 payroll gain in February. In other recent news, automakers reported yesterday that they sold 17.5 million cars and light trucks at an annual rate in March, easily beating consensus expectations, up 2.4% from February, and up 3.9% from a year ago. Looks like some consumers are getting used to the tax cut and fatter paychecks. However, auto sales in the first quarter were still below the average for 2017, which was, in turn, below the pace of 2016. Expect consumers to keep shifting purchases to other sectors in the next few years.

Non-Manufacturing ISM Index *Seasonally Adjusted Unless Noted*	Mar-18	Feb-18	Jan-18	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Composite Index	**58.8**	59.5	59.9	59.4	58.6	55.6
Business Activity	**60.6**	62.8	59.8	61.1	60.6	59.2
New Orders	**59.5**	64.8	62.7	62.3	60.5	59.4
Employment	**56.6**	55.0	61.6	57.7	57.0	52.4
Supplier Deliveries (NSA)	**58.5**	55.5	55.5	56.5	56.2	51.5
Prices	**61.5**	61.0	61.9	61.5	61.0	54.3

Source: Institute for Supply Management