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January ISM Non-Manufacturing Index

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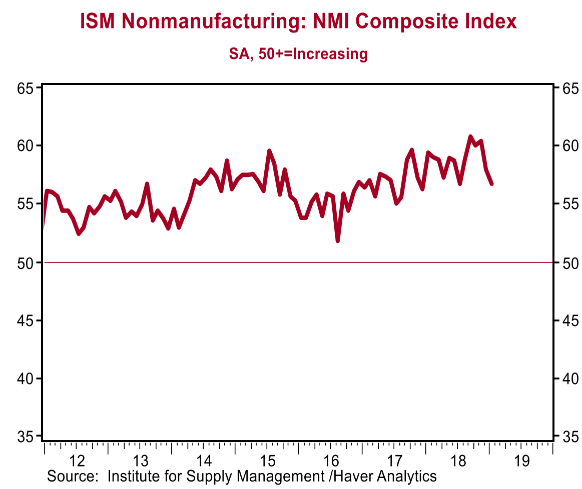
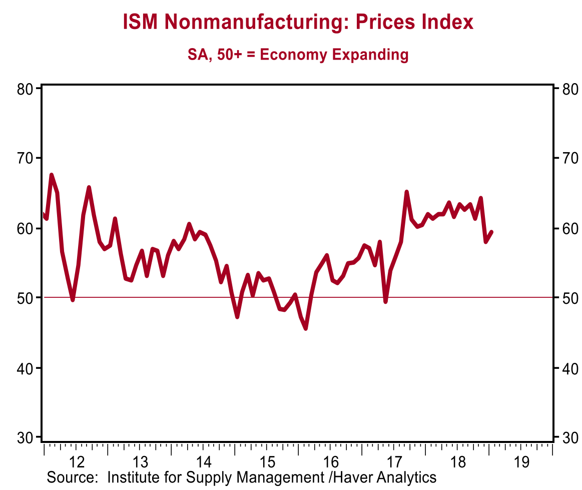
- The ISM non-manufacturing index declined to 56.7 in January, below the consensus expected 57.1. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in January, but all remain above 50, signaling expansion. The new orders index fell to 57.7 from 62.7 in December, while the business activity index declined to 59.7 from 61.2. The employment index increased to 57.8 from 56.6 in December. The supplier deliveries index was unchanged at 51.5.
- The prices paid index increased to 59.4 from 58.0 in December.

Implications: The pace of service sector growth slowed in January, but remains comfortably in expansion territory. The more measured growth was due, in part, to sentiment-related impacts from both the government shutdown and ongoing trade dispute, which peppered respondent's comments once again. With the government reopened (at least for now), and some apparent progress on trade discussions, look for a rebound in the pace of growth in February. Even with the uncertainty apparently weighing, details of today's report show growth continues to be broad-based, with eleven of eighteen industries reporting expansion in January while seven reported a decline. In addition to the breadth of growth, the two most forward-looking indices – new orders and business activity – remain comfortably in growth territory, even with the 5-point decline in the new orders index. In other words, the outlook for activity looks bright for the months ahead. The employment index was the sole major measure of activity to move higher in January, which jives with last Friday's booming jobs report. Finally, the supplier deliveries index was unchanged in January at 51.5, as respondents noted both component shortages and capacity constraints. These ongoing delays, paired with the continued growth in new orders, are putting upward pressure on prices – which once again rose in January. While we don't expect prices will soar any time soon, inflation should remain near-or-above the Fed's 2% target, meaning that the economic picture will continue to justify further rate hikes, though the Fed will need to see more movement at the longer end of the yield curve before they make their next move. In other recent news, automakers reported selling cars and light trucks at a 16.6 million annual rate in January, down 5.1% from December, down 3.0% from a year ago, and coming in below the consensus expected 17.2 million pace. Extreme cold temperatures across the country played a role, keeping potential buyers indoors at the end of the month. But while we expect a modest rebound in February, the outlook for autos suggests a gradual decline in sales in the coming years in spite of solid economic growth.





Non-Manufacturing ISM Index *Seasonally Adjusted Unless Noted*	Jan-19	Dec-18	Nov-18	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	**56.7**	58.0	60.4	58.4	59.1	59.4
Business Activity	**59.7**	61.2	64.3	61.7	62.2	60.1
New Orders	**57.7**	62.7	62.7	61.0	61.3	61.5
Employment	**57.8**	56.6	58.0	57.5	58.0	60.5
Supplier Deliveries (NSA)	**51.5**	51.5	56.5	53.2	55.0	55.5
Prices	**59.4**	58.0	64.3	60.6	61.5	62.0

Source: Institute for Supply Management