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February ISM Non-Manufacturing Index

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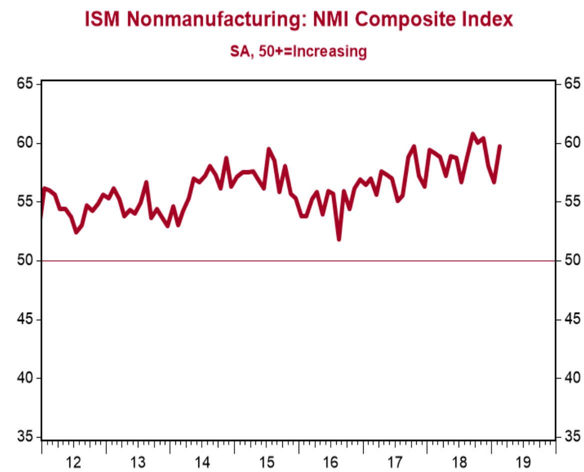
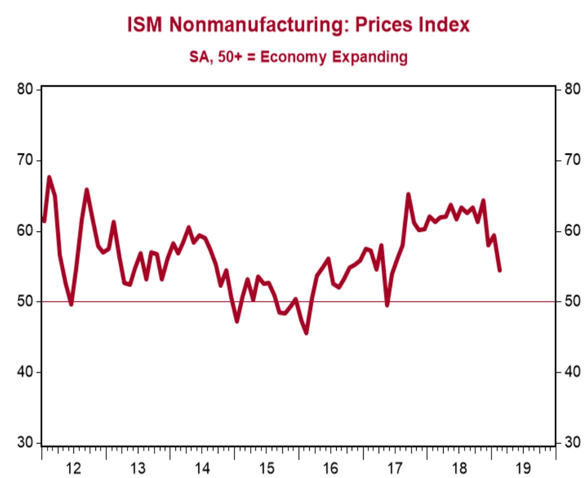
- The ISM non-manufacturing index rose to 59.7 in February, well above the consensus expected 57.4. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in February, and all remain above 50, signaling expansion. The new orders index jumped to 65.2 from 57.7 in January, while the business activity index rose to 64.7 from 59.7. The supplier deliveries index increased to 53.5 from 51.5 in January. The employment index declined to 55.2 from 57.8.
- The prices paid index fell to 54.4 from 59.4 in January.



Source: Institute for Supply Management/Haver Analytics



Source: Institute for Supply Management/Haver Analytics

Implications: Following two months of modestly slowing growth in the service sector, the ISM non-manufacturing jumped higher in February with strong readings virtually across the board. All eighteen sectors reported growth in February, despite continued grumblings in the respondents' comments that trade tariffs still weigh on minds. Regardless, it may be on their minds but certainly doesn't look to have held back action. In addition to the breadth of growth, the two most forward-looking indices – new orders and business activity – led the rise in February. New orders jumped 7.5 points in February, the largest single-month increase since April of 2009. Business activity followed suit, rising 5.0 points, the largest monthly gain for that index in three years. Here too, the pickup is broad-based, with both indices showing sixteen of eighteen industries reporting growth. This pickup in activity comes as suppliers are feeling the pressure to fill orders at the pace they are coming in, which pushed the supplier deliveries index higher in February. A combination of backorders that still need to be filled, and manufacturers already running at or near full capacity, may keep this measure elevated in the coming months. Companies are investing (just take a look at last week's GDP report which showed growth in corporate investment at the fastest annual pace since 2011), but it takes time for new capacity to come online. Shortages are impacting prices too, which continued to rise in February, though at a slower pace than in recent months. Qualified labor (most notably in construction) continues to represent the greatest shortage companies are reporting. This could help explain why the employment index was the sole major measure of activity to move lower in February, though it remains comfortably above 50. We expect Friday's employment report will show jobs gains reverting back toward trend levels in February following January's booming jobs growth of 304,000 – our current forecast for Friday's employment report is 195,000 nonfarm payroll jobs added, though that could change with the ADP data out tomorrow. In other recent news, automakers reported selling cars and light trucks at a 16.6 million annual rate in February, down 0.8% from January, down 2.6% from a year ago, and coming in below the consensus expected 16.8 million pace. While we expect a modest rebound in months ahead, the fundamentals for autos – growth in the driving-age population as well as scrappage – suggest a gradual decline in sales in the coming years in spite of solid economic growth.

Non-Manufacturing ISM Index *Seasonally Adjusted Unless Noted*	Feb-19	Jan-19	Dec-18	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Composite Index	**59.7**	56.7	58.0	58.1	59.3	59.1
Business Activity	**64.7**	59.7	61.2	61.9	62.8	61.9
New Orders	**65.2**	57.7	62.7	61.9	61.9	63.8
Employment	**55.2**	57.8	56.6	56.5	57.7	55.1
Supplier Deliveries (NSA)	**53.5**	51.5	51.5	52.2	54.6	55.5
Prices	**54.4**	59.4	58.0	57.3	60.1	61.3

Source: Institute for Supply Management