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## February ISM Non-Manufacturing Index

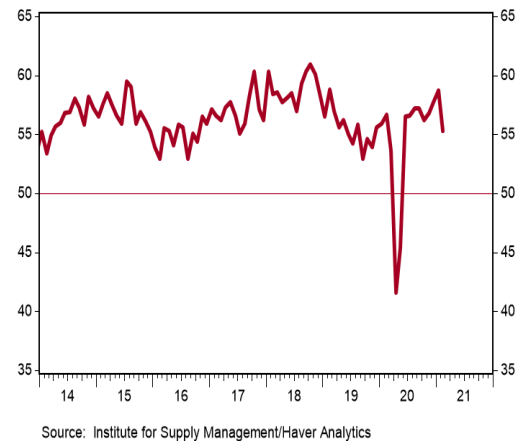
- The ISM Non-Manufacturing index declined to 55.3 in February, lagging the consensus expected 58.7. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity were mostly lower in February, but all stand above 50, signaling growth. The new orders index fell to 51.9 from 61.8 in January, while the business activity index declined to 55.5 from 59.9. The employment index moved lower to 52.7 from 55.2 in January. The supplier deliveries index rose to 60.8 from 57.8.
- The prices paid index rose to 71.8 from 64.2 in January.

**Implications:** Service sector activity surprised to the downside in February after a multi-year high reading in January. But remember, readings above 50 signal expansion, so the decline of the index in February to 55.3 represents continued growth for the service sector, just at a slower pace than in January. While the headline reading declined, growth became more broad-based, with seventeen of eighteen industries reporting growth on the month (up from fourteen in January), and just real estate, rental & leasing reporting a decline. It’s also worth noting that comments from survey respondents were broadly positive, such as “declining COVID-19 cases... combined with the increased vaccination rates, should bode well for our increased business activity moving into the second quarter of 2021.” Where cautious comments did appear, they tended to revolve around continued issues with the supply chain (note the supplier deliver index – which rises as companies report longer delivery delays - rising to 60.8 from 57.8 in January), which in turn is putting upward pressure on prices. As we saw in Monday’s report on the manufacturing sector, costs are broadly higher, with twenty-eight commodities reported up in price (and twenty-five listed in short supply) in February, driving the prices paid index to the highest reading in more than a decade at 71.8. Add in expectations for the \$1.9 trillion dollar stimulus bill to be passed in the next two weeks, and the formula for a further pickup in inflation looks likely. The two most forward-looking indices – business activity and new orders – moved lower in February, but both remain in expansion territory. Harsh winter weather and blackouts in some areas were likely contributing factors to the slowdown, and we expect these measures to move higher in the months ahead. On the jobs front, the employment index declined to 52.7 from 55.2 in January. Job growth may remain subdued for another month or two as vaccine distribution ramps up, but the lull in employment growth will be temporary, and we forecast a significant pick-up in job growth as we move toward the second half of the year. We now have three vaccines being distributed, and all three are ramping up production. With each day we are one day closer to getting back to “normal.” In other news this morning, the ADP employment report showed 117,000 private-sector jobs gained in February, falling short of the consensus expected 205,000. Plugging these data into our models suggests Friday’s report on nonfarm payrolls will show a gain of about 180,000 with the unemployment rate remaining at 6.3%. In other recent news, cars and light trucks were sold at a 15.67 million annual rate in February. Sales were down 5.7% from January and down 6.6% from a year ago. Expect sales to rebound in March and remain solid over the next few months as the weather improves and the economy progresses with reopening.

**ISM Services: Prices Index**  
 SA, 50+ = Economy Expanding



**ISM Services: Services PMI Composite Index**  
 SA, 50+=Increasing



<b>Non-Manufacturing ISM Index</b> <i>Seasonally Adjusted Unless Noted</i>	<b>Feb-21</b>	<b>Jan-21</b>	<b>Dec-20</b>	<b>3-month moving avg</b>	<b>6-month moving avg</b>	<b>Year-ago level</b>
<b>Composite Index</b>	<b>55.3</b>	58.7	57.7	57.2	57.0	56.7
<b>Business Activity</b>	<b>55.5</b>	59.9	60.5	58.6	59.9	59.2
<b>New Orders</b>	<b>51.9</b>	61.8	58.6	57.4	58.3	59.5
<b>Employment</b>	<b>52.7</b>	55.2	48.7	52.2	51.3	55.7
<b>Supplier Deliveries (NSA)</b>	<b>60.8</b>	57.8	62.8	60.5	58.3	52.4
<b>Prices</b>	<b>71.8</b>	64.2	64.4	66.8	64.2	52.3

Source: Institute for Supply Management

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