

U.S. Economic Flash

ISM Non-Manufacturing Slows But Signs of Growth Abound

- The ISM Non-Manufacturing Index fell to 55.2 in January, noting a moderate slowdown in overall and new orders
- The employment index jumped to 57.5 while the export index surged to 55.5, hinting at strong signs of possible growth in the coming months

The ISM Non-Manufacturing Index declined in January, easing to 55.2 from 55.7 in December. Making up a large portion of the market, the non-manufacturing sector remained relatively steadfast and continued to show signs of growth. While almost all of the categories remained above the growth level of 50, business activity and new orders did drop as some parts of the sector struggled to take off at the start of 2013, at 56.4 and 54.5 respectively. Understandably, the deceleration in new orders might still have something to do with the upcoming fiscal battle in Washington and the anticlimactic start to the new year, but with levels still 4 points above contraction, there is little doubt that the services sector is showing signs of expansion.

Other notable areas were employment and export orders. Employment is an area of interest because the non-manufacturing sector makes up a sizeable portion of the nation's workforce and its sentiment on employment determines part of how the employment situation appears. For the January figure, employment rose by a strong 2.2 points to 57.5 which is the highest level it has reached since well before the recession. This should equate to stronger employment throughout the service sector and translate into a better employment situation for 1Q13. Coupled with positive employment figures was the export orders index which surged above its previous contractionary level to 55.5, a 6-point increase. This should bode well for the sector as it has shrunk for the past 3 months but now shows some hint of resuscitation from growing global demand.

While the report does point to a partial deceleration within the non-manufacturing sector, important facets have shown strong signs of growth. Both business activity and new orders remain strong and continue their expansion but employment and export order are showing rekindled strength and should propel the sector into further expansion in the coming months as the economy continues to grow.

Chart 1

ISM Non-Manufacturing Index 3 Month Moving Avg



Source: ISM & BBVA Research

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