

January 2019 ISM Non-Manufacturing Index, IHS Markit U.S. Services PMI

U.S. Service Sector Is Expanding, but More Slowly

- The ISM Non-Manufacturing Index for January eased to a moderate 56.7 percent.
- The IHS Markit U.S. Services PMI for January dipped to 54.2, indicating ongoing expansion.

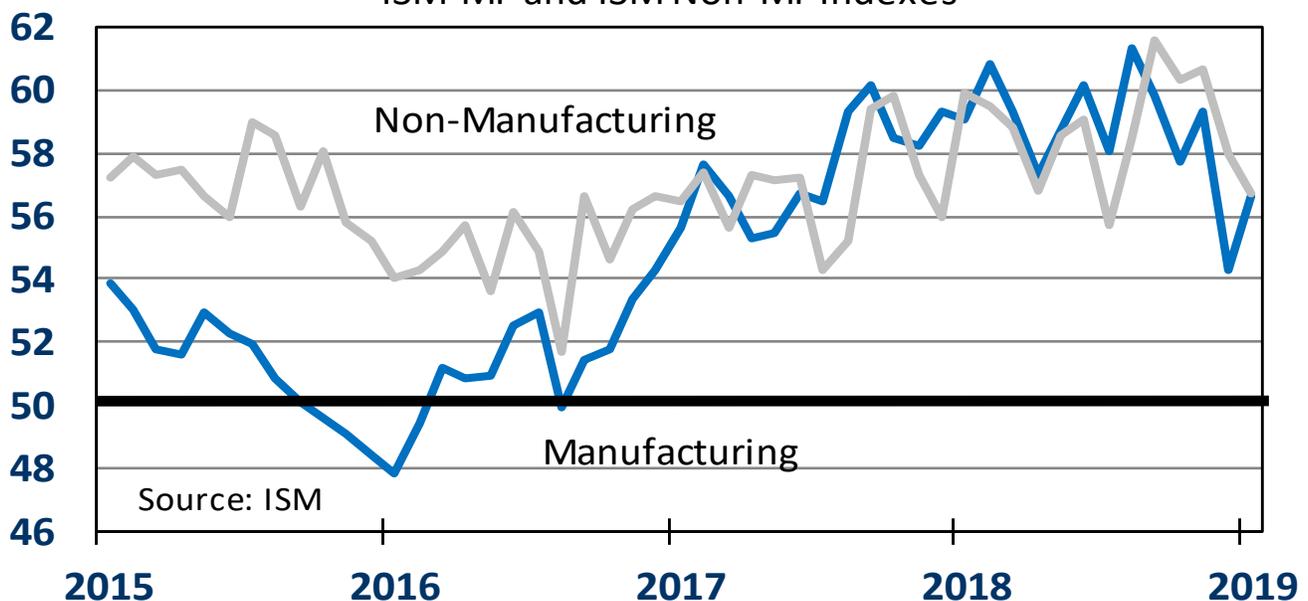
Today we received two views in the state of the U.S. service sector. The ISM Non-Manufacturing Index for January eased from a strong 58.0 in December, to a more moderate 56.7. The production, new orders and employment sub-indexes all remained comfortably above the neutral 50 mark. The employment sub-index increased from 56.6 in December to 57.8 in January, consistent with the robust payroll jobs numbers for January. The only sub-index out of ten to show contraction was the inventories index, which declined from 51.5 in December, to 49.0 in January. Labor was seen as getting more expensive and in short supply in January. Amongst industries, winners and losers were about evenly split. Nine industries reported growth in January, including transportation & warehousing, healthcare & social assistance and mining. Eight industries reported a decrease in activity in January, including agriculture, forestry and fishing & hunting. Anecdotal comments were mixed. A comment from the construction industry said, "Business has slowed well below expectations...". Several businesses commented that the government shutdown was a cause for concern, if not an outright drag.

The IHS Markit U.S. Services PMI fell slightly from 54.4 in December to 54.2 in January. Like the ISM index, the IHS index is also past its recent peak and trending down, but it remains in positive territory indicating ongoing, but slower expansion. According to IHS, their January index is consistent with about 2.5 percent real GDP growth in 2019Q1. In our February U.S. Economic Outlook we show 2.5 percent real GDP growth in Q1, cooling slightly in the following quarters.

Market Reaction: U.S. equity markets open with gains. The yield on 10-Year Treasury bonds is down to 2.70 percent. NYMEX crude oil is down to \$54.29/barrel. Natural gas futures are up to \$2.69/mmbtu.

Both ISM Indexes Trending Lower

ISM-MF and ISM Non-MF Indexes



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