



Economics Group

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ISM Non-Manufacturing Roughly In Line, Jobs Pick Up

The ISM index for the service sector came in at 56.0, shy of the 56.8 expected by the consensus. Compared to 57.3 in February, this is a lower reading, but still firmly in expansion. Employment increased to 56.7.

Slower Growth in Store

After the ISM non-manufacturing index jumped to a 12-month high in February, some giveback here in March was broadly expected. In addition to the drop in the headline figure, the Business Activity Index fell by a larger amount to come in at 58.9 in March, versus 62.6 in February.

Despite the decline, however, businesses remain more optimistic than they have been for the majority of the past several years, as the top chart to the right shows. This report is in line with our forecast for real GDP growth on the order of 2.2 percent for 2012.

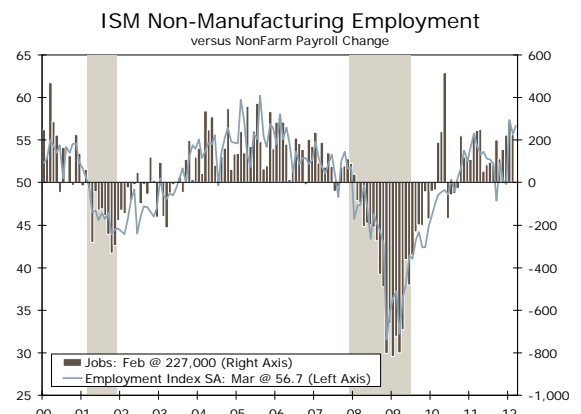
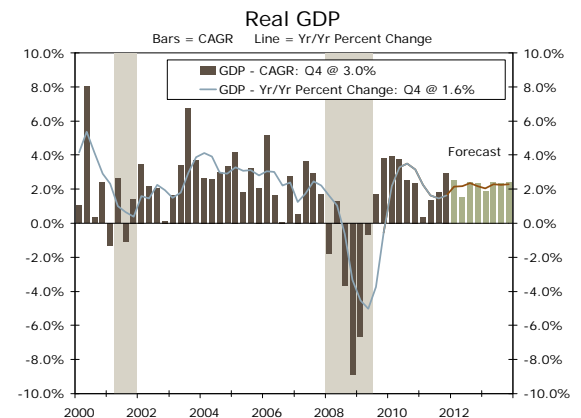
There is no one sector that is clearly driving the growth in this cycle, and that is manifested by the unusually broad-based support in today's figures. Sixteen non-manufacturing industries are in expansion mode, led by such disparate industry sectors as arts, entertainment and recreation, accommodation and food services and construction. Only two sectors reported contraction: mining and agriculture.

What Do the ISM Surveys Tell Us About Friday's Jobs Number?

Earlier this week, in the manufacturing ISM survey, the employment component rose to 56.1, a six-month high. Today's report revealed that in the service sector, the employment component rose to 56.7. Our analysis finds that the employment component in the ISM non-manufacturing survey has been a better predictor of changes in nonfarm payrolls.

In a separate release this morning, the ADP figure for employment increased by 209K in March, roughly in line with expectations. The ADP measure has a hit-and-miss record of predicting the actual nonfarm number that typically prints a few days later, on employment Friday. By sector, ADP reported that manufacturing jobs increased 23K, better than the 9K average we have seen in this component in the prior six months. Service-providing employment rose by 164K in March, which is off slightly from 183K in February, but roughly in line with the 167K average growth for service jobs in the prior six months. The other thing to keep in mind about the ADP report is that it is a measure of private payrolls; it does not capture government jobs. Over the past year or so, public sector layoffs have been a big drag on payroll growth, subtracting more than 22K jobs a month on average during 2011. But the bulk of government layoffs may be behind us. The net change in government payrolls accounted for just 6K lost jobs in February and only 1K lost in January.

The point here is that the effect of government job losses may be fading, even as manufacturing job growth is becoming a somewhat larger factor to the nonfarm number. On net, the improvement in the employment component of both ISMs combined with a slightly better-than-expected ADP print this morning may drive consensus estimates for Friday higher.



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