Data Release: ISM non-manufacturing notches a modest gain in February

- The Institute of Supply Management (ISM) non-manufacturing index rose by 0.2 points to 56.9 in February, besting the consensus forecast which called for a modest pullback to 56.5.
- The underlying details of the report were mixed, with business activity (-2.1 points) and new-orders (-2.8) falling on the month, while employment (4.8) notched a sizable gain.
- The prices paid sub-component also rose on the month, but still remains below the expansionary threshold of 50.
- Of the 18 industries surveyed, 14 reported having expanded on the month, while only 4 – mining, construction, other services and arts, entertainment & recreation – reporting contraction.

Key Implications

- On the whole, not a bad report. Despite the details being mixed, it appears that at least some of the weakness in business activity can be chalked up to delays resulting from labor disruptions across West Coast ports. However, with a deal now in place, the cargos stuck in port should increasingly start to flow to their destinations over the coming months, helping to reduce many of the shortages that businesses have reported in recent months.
- While falling energy costs continue to weigh on the headline number, the reality is, lower commodity prices are a net positive for the service sector which makes up the majority of the economy. Not only do they reduce businesses input costs, they also leave more money in the pockets of consumers. While little of this windfall in disposable income has so far shown up in retail sales figures – made up largely of spending on durable and non-durable goods – it has begun to manifest on services spending. This bodes well for the services sector which should experience robust growth in expenditures going forward, after having been the Achilles heel for consumer spending through much of the recovery.
- After retracing for the three last consecutive months, it was encouraging to see the employment index bounce back in this morning’s report. Alongside a solid February ADP employment report, this reading sets the stage for what should be another 200k+ outturn in this Friday’s non-farm payrolls report.

Thomas Feltmate, Economist
416-944-5730

DISCLAIMER
This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.