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Financial
Group**

TD Economics

Commentary

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ISM NON-MANUFACTURING INDEX BELOW 50 FOR THIRD CONSECUTIVE MONTH

- **ISM non-manufacturing index improves slightly from 49.3 in February to 49.6 in March**
- **While the new orders and business activity sub-components are now above 50, the 46.9 reading for employment suggests another ugly number for tomorrow's nonfarm payrolls report**

The ISM non-manufacturing index came in at 49.6 in March, which was much stronger than expected and up slightly from 49.3 in February. However, the most important thing to note is that this index is still sitting below 50, and has been there for three consecutive months, signaling that the U.S. economy is still contracting.

Looking at the details of the report, most of the major subcomponents did improve, implying that the non-manufacturing side of the economy was not as weak in March as it was in February. In fact, both business activity and new orders are now above 50, at 52.2 and 50.2, respec-

tively. However, with the March nonfarm payrolls report out tomorrow, markets will likely be focused on the employment sub-component, which was flat at 46.9, suggesting that another negative payrolls number is on the way. We also saw weakness in the backlog of orders category, which fell from 49.5 to 47.5, implying that without a significant increase in new orders, firms are going to be filling their outstanding orders and cutting back on production relatively soon.

With 11 industries reporting growth and 6 industries contracting, the service side of the economy isn't exactly collapsing. However, this is the first time we've seen three months in a row of sub-50 readings since 2001-2002, so this isn't something that can be taken lightly. And with employment failing to improve in March, our forecast for a -80K reading for March payrolls is looking pretty reasonable, with the risk being that the pace of job losses accelerates even more than what we're predicting.

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