



Financial FAQs

Expanding Service Sector Boosts Growth

Why are stock indexes breaking records? It's not only because of record corporate profits, up 20 annually since the end of 2008. It's because the bulk of the nation's economy is growing strongly and looks to continue to grow strongly. The ISM's non-manufacturing (service sector) index rose nearly one point to a higher-than-expected level of 56.0. It means 56 percent of respondents reported a stronger pace of overall growth relative to what was already a strong rate in January.



Graph: Econoday

New orders are up a very sharp 3.8 points to 58.2 with backlogs posting a 5.5 point jump to a very strong 55.0. New orders coming in and old orders piling up is a good mix for the employment outlook. And non-manufacturers are already hiring, at 57.2 which may be down three tenths from January but is still an exceptionally strong rate of monthly employment growth.

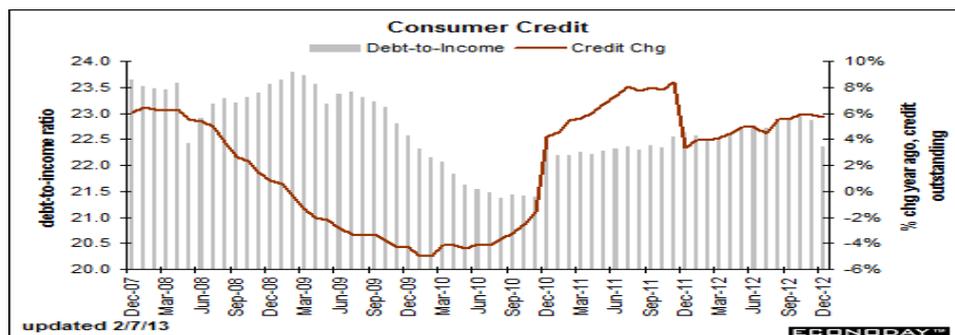
Add to that the Labor Department's 236,000 increase in payrolls and drop to 7.7 percent unemployment rate, and we see a more certain business environment, now that most of the budget battles have been resolved. It didn't matter who won, in other words. And 179,000 of the added jobs were in the service sector, vs. 67,000 in the goods-producing sector, which highlights why the service sector is the main engine of growth.

The ISM's manufacturing report also had very good news with accelerating monthly growth for general activity, reflected in a 1.1 point gain for the headline index to 54.2, and acceleration in new orders which jumped 4.5 points to a very strong 57.8. A plus in this report is strength in new orders for exports are also accelerating, to 53.5 for a 3-1/2 point gain. Total backlogs are especially strong in the ISM report, at 55.0 for a big 7-1/2 point gain.



Graph: Econoday

That only question mark is the consumer sector, which powers 70 percent of activity. The consumer continues to take on new debt at a steady and strong clip but whether it points to rising consumer demand is uncertain. Consumer credit rose \$14.6 billion in December vs. a revised \$15.9 billion in November, and \$14.0 billion in October. But the revolving, credit-card side hasn't been adding to the total. Revolving credit has been very flat, up a little bit one month and then down a little bit the next and is down \$3.6 billion in the latest data. This could limit spending.



The service sector and manufacturing indexes are the best measure of overall economic activity, and so point to much better growth in 2013.

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