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ISM Non-Manufacturing: Solid, and stabilizing

The headline February ISM Non-Manufacturing index is on the firm side of expectations, rising 0.5 point to 57.3 (Consensus: -0.6 point; Decision Economics: +0.3 point), in a reasonably well-supported way--offering reassurance that broadening service-sector growth will stabilize the overall expansion of the economy even as manufacturing-sector growth occasionally wobbles.

The main factor in the headline increase was a 3.1-point rise, to 62.6, in the pure-sentiment "business activity" index given extra--hard-data--credibility by a 1.8-point rise, to 61.2, in the new order index.

Holding the headline index back were a 1.7-point decline, to 55.7, in the employment index, and a speedup in deliveries sufficient to pull the supplier deliveries index down 1.5 points, to 49.5. Notably, the relatively modest employment index decline followed a 7.6-point jump last month--so it is essentially a modest retreat from an unsustainably strong level.

Great dynamism is not usually a characteristic of service-sector industries--so the solid gain in the headline index, at a high level, bespeaks almost remarkably solid expansion, given the modest-growth trend evident in the overall economy until very recently.

Fed hawks will see this as lessening downside risks. Doves may too, but will take much more evidence before being dissuaded from their desire to accelerate the economy further in order to lift employment more rapidly.

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