

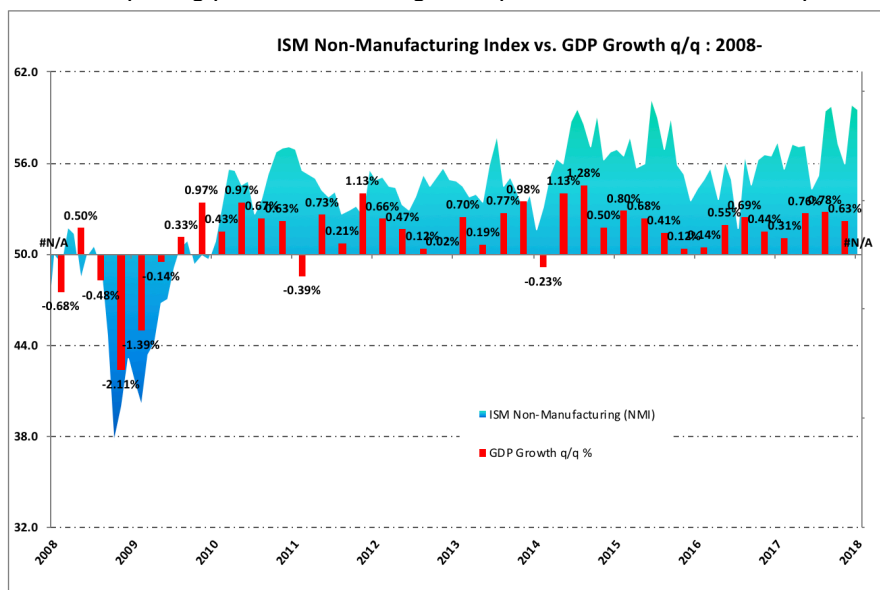
# First Macro Capital

## ALERT - HEALTH OF US NON-MANUFACTURING: ISM Non-Manufacturing February 2018

The ISM Non-manufacturing index (A survey of more than 400 non-manufacturing firms' purchasing and supply executives, within 60 sectors in the USA) dipped in February, while still growing, at a slower pace. This was driven by slower growth in employment.

Input prices continue to increase at a slower rate driven by price increases in commodity products, rising and shortages in labour in subcontractors and construction.

A rise in commodity inputs, base metals and oil prices is appearing in copper products and fittings, and businesses are commenting that the rise of oil has increased the costs of diesel, fuel gasoline. There is increasing probability that manufacturing companies will report the impact of these commodities in the earnings in the upcoming quarter. **As with February's reported ISM Manufacturing, both the ISM Manufacturing and ISM Non-manufacturing highlight a recession is not in the cards yet.** We wonder how long the strength of both the manufacturing and non-manufacturing sectors will remain at these levels. Rates are rising, tariffs are rising in multiple sectors on U.S. imports and commodities are putting pressures on businesses. The question remains: "How much these pricing pressures will negate impact of tax reform on companies going forward?"



Source: ISM, ITPM, First Macro Capital

### The Lumber Rising and Tariffs are Being Added on Imported Lumber from Canada:

"Lumber-related costs continue to increase as supply is also starting to become a problem. The market volatility of construction materials and the short supply of construction labor have added difficulty to long-term planning." (Construction) [1].

Do a little digging, here is an article that comments a bit more on the lumber situation. [Article](#)

With the recent announcements of tariffs on steel, and if it is signed, then we would expect a similar outcome for steel, as to what is now being reported in lumber and to appear in the surveys in a few months' time.

### WHAT RESPONDENTS SAID IN THE SURVEY:

- "Price of oil is increasing, which will have a trickle-down effect on our business. As the major oil and gas companies increase their activity, our business will increase with a bit of a lag." [2] (Mining)

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SECTOR AT GLANCE February 2018			
Sector	Sentiment	Level	Notes
Educational Services	Growth	16	
Transportation & Warehousing	Growth	15	
Utilities	Growth	14	
Real Estate, Rental & Leasing	Growth	13	
Wholesale Trade	Growth	12	"Domestic transportation is still a challenge with slower than normal transit times. Both intermodal and over-the-road carriers are struggling [with] the electronic data logs (EDs) now required on all tractors." (Wholesale Trade)
Finance & Insurance	Growth	11	"Slight increase in activity; beginning to see some higher cost for goods and services." (Finance & Insurance)
Management of Companies & Support Services	Growth	10	
Professional, Scientific & Technical Services	Growth	9	"Optimistic outlook due to GDP and tax breaks, tempered by stock market instability." (Professional, Scientific & Technical Services)
Health Care & Social Assistance	Growth	8	"Overall, [a] very positive outlook. Employment is low, and prices are up." (Health Care & Social Assistance)
Other Services	Growth	7	
Construction	Growth	6	"Lumber-related costs continue to increase as supply is also starting to become a problem. The market volatility of construction materials and the short supply of construction labor have added difficulty to long-term planning." (Construction)
Mining	Growth	5	"Price of oil is increasing, which will have a trickle-down effect on our business. As the major oil and gas companies increase their activity, our business will increase with a bit of a lag." (Mining)
Public Administration	Growth	4	"Lack of consistent government funding is decreasing spend across the Federal government." (Public Administration)
Retail Trade	Growth	3	"Business outlook is picking up momentum due to the state of the stock-market and recent tax breaks. More investment into corporation CapEx funds." (Retail Trade)
Agriculture, Forestry, Fishing & Hunting	Growth	2	
Information	Growth	1	
Accommodation & Food Services	Contraction	-1	"Class-A driver shortage is causing an escalation in the cost of both inbound and outbound logistics, which is increasing our cost of goods." (Accommodation & Food Services)
Arts, Entertainment & Recreation	Contraction	-2	

Source: ITPM, ISM

ISM Non-Manufacturing at a glance February 2018							
Index	Index February	Index January	Change %	Direction	Rate of change	Trend (Months)	
NMI®/PMI®	59.5	59.9	-0.4	Growing	Slower	97	
Business Activity/Production	62.8	59.8	3.0	Growing	Faster	103	
New Orders	64.8	62.7	2.1	Growing	Faster	85	
Employment	55.0	61.6	-6.6	Growing	Slower	48	
Supplier Deliveries	55.5	55.5	0.0	Slowing	Same	26	
Inventories	53.5	49.0	4.5	Growing	From Contracting	1	
Prices	61.0	61.9	-0.9	Increasing	Slower	24	
Backlog of Orders	56.0	50.5	5.5	Growing	Faster	2	
New Export Orders	59.5	58.0	1.5	Growing	Faster	13	
Imports	50.0	54.0	-4.0	Unchanged	From Growing	1	

Source: ISM, ITPM, First Macro Capital

## FROM A COMMODITY PERSPECTIVE:

Overall, as the economy continues to remain healthy, this is being reflected in the commodity prices of goods. A rise in base metals prices is appearing in commodity products such as copper products, copper fitting. High oil prices continue to be felt by end users, as they are experiencing higher diesel fuel, gasoline for several months now.

Commodities Up in Price	Commodities Down in Price	Commodities in Short Supply
Aluminum Products (2); Chemical Products (2); Consulting Services; Copper Fittings; Copper Products (7); #1 Diesel Fuel (9); #2 Diesel Fuel (7); Eggs; Freight Charges; Fuel (2); Gasoline (7); Labor; Labor — Construction (12);	Chicken Products (2); Office Supplies; Soybean Oil.	Construction Subcontractors (2); IV Solutions (7); Labor (7); Labor — Construction (23); Labor — Temporary (6); Masks for TB/H1N1.

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Labor — Temporary; Lumber Products (8); Natural Gas (4); OSB; Paper (3); Polypropylene; PVC Products; Rebar; Steel Products (5); Transportation Costs (2).		
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Note: The number of consecutive months the commodity is listed is indicated after each item. Source: ISM

Sources:

[1] ISM

[2] ISM

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### GUIDE

#### **What is the Non-Manufacturing ISM?**

On a monthly basis, a survey is sent out by the Institute of Supply Management to non-manufacturing purchasing & supply executives, and they report on information based ONLY on the current month of the survey. A report is then published in the following month, showing the results from the survey, and lists the industries that are growing or contracting.

#### **What is the Manufacturing ISM?**

On a monthly basis, a survey is sent out by the Institute of Supply Management to manufacturing purchasing & supply executives, and they report on information based ONLY on the current month of the survey. A report is then published in the following month, showing the results from the survey, and lists the industries that are growing or contracting.

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