



U.S. Service Industries Grow at Fastest Pace in Five Years

By Alex Kowalski - Mar 3, 2011

[Service industries](#) expanded more than forecast in February, showing the U.S. expansion has broadened beyond manufacturing.

The [Institute for Supply Management](#)'s index of non-manufacturing businesses increased to 59.7, the highest level since August 2005, from 59.4 in January. Economists forecast the gauge would fall to 59.3, according to the median estimate in a Bloomberg News survey. A reading above 50 signals growth.

A cut in payroll taxes came just in time to help Americans cope with the jump in gasoline prices, indicating companies like [Union Pacific Corp. \(UNP\)](#) will keep benefitting from increased spending. Federal Reserve Chairman [Ben S. Bernanke](#) this week signaled the central bank will forge ahead with plans aimed at holding down [interest rates](#) after reiterating he's still not content with the strength of the recovery.

"The services sector is showing signs of a sustained recovery," said Jeffrey Roach, chief economist at Horizon Investments in [Charlotte, North Carolina](#). Roach forecast a reading of 59.8. "The employment picture, in particular, is encouraging as firms are hiring in response to increased business activity."

Other reports today showed [consumer confidence](#) held near a three-year high last week as more Americans said their finances were in good shape, and claims for jobless benefits unexpectedly dropped.

Consumer Confidence

The Bloomberg Consumer Comfort Index, formerly the ABC News U.S. Weekly Consumer Comfort Index, was minus 39.3 in the period to Feb. 27, compared with minus 39.2 the prior week. Respondents' view of their financial situation climbed to an almost two-year high.

The number of applications for unemployment insurance payments fell by 20,000 to 368,000 in the week ended Feb. 26, according to the Labor Department. Economists forecast claims would climb to 395,000, according to the median estimate in a Bloomberg survey.

Stocks held gains and Treasuries fell after the ISM report. The Standard & Poor's 500 Index increased 1.2 percent to 1,324.3 at 10:41 a.m. in [New York](#). The yield on the benchmark 10-year note rose to 3.52 percent from 3.47 percent late yesterday.

The Tempe, Arizona-based group's index averaged 56.1 in the five years to December 2007, when the last recession began. It's averaged 52.1 since the current recovery started in June 2009 through December, trailing the 55.4 reading on the group's factory measure during the same period.

The measure of new orders eased to 64.4 from 64.9 in January, while the gauge of business activity rose to a seven-year high of 66.9 from 64.6.

Increased Employment

The group's employment gauge increased to 55.6, the highest since April 2006, from 54.5 a month earlier. The index of prices paid jumped to 73.3 from 72.1.

The ISM services survey covers industries that range from utilities and retailing to health care, finance and transportation. Today's report follows the group's March 1 figures that showed manufacturing grew in February at the fastest pace since May 2004 as orders, exports and employment climbed.

Following President [Barack Obama](#)'s agreement with Congress in December to extend Bush-era tax cuts, Americans have more money to spend on things besides factory-made goods. Earlier this week a Commerce Department report showed incomes climbed 1 percent in January, the most since May 2009, after the president's compromise reduced the social security payroll tax by 2 percentage points this year.

Employment Projection

Payrolls probably rose by 195,000 workers in February after a 36,000 gain the previous month, according to the median forecast of economists surveyed before a Labor Department 4 report tomorrow.

Robert Knight, chief financial officer at Union Pacific railroad, said last month that carloadings were up 6 percent in the first quarter even as snowstorms depressed activity.

"We are well positioned to have another great record year," Knight said at a transportation services conference in Miami on Feb. 16. "A growing U.S. economy and stronger consumer demand is expected to play a role."

At the same time, rising food and fuel costs may strain household budgets. The cost of gasoline

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advanced 8.8 percent last month, with regular fuel averaging \$3.17 a gallon in February, according to AAA, the nation's largest motorist organization. It reached \$3.39 a gallon on March 1, the highest price since October 2008.

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