

## Help Wanted? Not Yet in the Service Sector

JANUARY 6, 2010

By: PAUL VIGNA

The Institute for Supply Management's non-manufacturing index doesn't get as much attention as its manufacturing index, which helped drive Monday's rally. But it should.



The non-manufacturing sector comprises 88% of the economy, and it follows that most of the nation's jobs are in services ranging from construction to finance to pet care. While the worst of layoffs appear to be over, the services report is likely to show that hiring remains elusive.

Analysts expect the services-sector index to come in at a tepid 50.5 when the ISM reports the figure Wednesday morning. Readings above 50 generally indicate expansion. While 50.5 would mark the third month out of the past four above 50, the index's slide in November to 48.7 shows that the services sector is still susceptible to a pullback. The ISM's

manufacturing index bested 50 for five months running.

A critical component of the services-sector index is even weaker: jobs. The employment sub-index, factored into the overall number, has contracted for 22 of the past 23 months, according to ISM. November's 41.6 reading of service-sector employment remains in contraction territory.

Some service businesses are expanding. One of the strongest has been educational operations like vocational and retraining schools, said Drew White, chief financial officer of research firm Sageworks, which tracks private-sector information. "In a recession, people go back to school to get retrained," he says. Apart from education and health care, most service industries are cutting staff or holding steady amid declining sales.

Retailers, he says, have managed to cut staff and improved profit per employee, which means they mightn't be inclined to hire unless a sharp rise in sales forces their hand.

There is a chance the services employment index is too downbeat. There has been a divergence between the ISM and the Labor Department's employment readings, Capital Economics's senior U.S. economist Paul Ashworth notes, so the ISM could report a jump in employment that would catch it up to the federal government's data.

That data showed improvement in November over October. But, as with the overall jobs market, November's service-sector employment figures are still down from a year ago. By either measure, appreciable service-sector job growth appears far off.