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Services Booming But Jobs Not Plentiful

By REUTERS

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NEW YORK (Reuters) - The giant U.S. services sector expanded at its fastest rate on record in January, but that growth failed to create many new jobs, a survey showed on Wednesday.

Despite a decline in job growth in the Institute for Supply Management's monthly services poll, economists were holding tightly to forecasts of strong employment figures from the government later this week.

The services industry, which includes businesses ranging from hotels and restaurants to travel agencies and chain stores, accounts for roughly 80 percent of the U.S. economy.

Business was booming across sectors even without a visible burst of job creation, with factory orders climbing more than expected in December, according to Commerce Department data.

ISM's non-manufacturing index jumped to 65.7 in January from 58.0 in December, well above Wall Street estimates of a rise to 60.0 and the highest reading since the poll was first conducted in July 1997.

The survey's employment index edged lower, to 53.4 from 54.0, while demand for new orders accelerated, with that index rising to 64.9 from 59.5.

``Even in the go-go '90s you didn't do much better than where we are now,'' said Cary Leahy, senior economist at Deutsche Bank. But he cautioned that ``you might raise an eyebrow about slight downward movement in employment.

``You haven't yet had a senior business executive make statements in public that are as strong as these numbers, so in some sense, investors don't really believe them,'' he warned.

In an example of this lingering wariness in the business community, John Chambers, chief executive of technology heavyweight Cisco Systems Inc.(CSCO.O), said on Tuesday CEOs are still unusually cautious about new spending and hiring.

That might help explain the gap between sentiment-based surveys such as the ISM report and the government's raw payrolls data, which portrayed a completely stagnant labor market in December.

A Reuters poll showed economists' predictions for net job creation in January settling at around 150,000 new positions after December's meager addition of 1,000 workers to U.S. payrolls.

Stocks were down modestly after the day's serving of economic data, but technology shares bore the brunt of the losses, mainly due to Chambers' rather sober comments. Treasury bond prices were tripped lower by the pick-up in services activity.

Markets were largely unfazed by a Commerce Department report showing new orders for manufactured goods rose 1.1 percent in December after falling an upwardly revised 0.9 percent in November. Analysts had forecast a rise of 0.2 percent.

Earlier, a survey of U.S. mortgage bankers showed a decline in the number of applications for home loans last week, although demand for mortgages and refinancings was still robust.

``We are not in a refinance wave or boom, but refinance activity has definitely picked up, which is understandable because mortgage rates have fallen well below 6 percent,'' said Stephen Stanley, chief economist at RBS Greenwich Capital Markets Inc.