

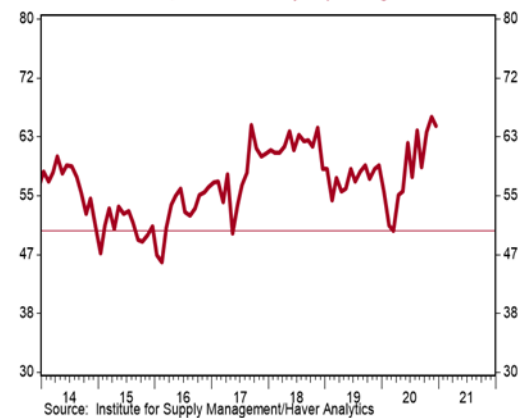
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December ISM Non-Manufacturing Index

- The ISM Non-Manufacturing index rose to 57.2 in December, easily beating the consensus expected decline to 54.5. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity were mostly higher in December, and most stand above 50. The supplier deliveries index jumped to 62.8 from 57.0 in November, while the business activity index rose to 59.4 from 58.0. The new orders index increased to 58.5 from 57.2 in November. The employment index fell to 48.2 from 51.5.
- The prices paid index declined to 64.8 from 66.1 in November.

Implications: Like Tuesday’s manufacturing report, service sector activity surprised to the upside in December. And of the eighteen industries included in the ISM survey, fourteen of the eighteen industries reported growth on the month (four reported decline). The pandemic remains the driving force surrounding cautious optimism from the service sector. Difficulties navigating conflicting guidelines at the local, regional, and national level remain an issue, but the start of vaccine distributions has light appearing at the end of the tunnel. As a result, the two most forward-looking indices – business activity and new orders – moved higher in December and remain well in expansion territory. Both orders and activity look likely to continue to expand in the months ahead, though it may come with fits and starts. One key question around the path forward relates to the ability of supply chains to keep up. The supplier deliveries index, which rises when companies report longer delivery delays (typically a sign of more demand than suppliers can fill in a timely manner), jumped to 62.8 in December from 57.0. Seventeen of eighteen industries reported slower delivery times, while one reported no change. Lack of labor, COVID-19 restrictions, and shipping delays (including added stress from the holiday season) have created an environment where companies report they are considering rejecting new orders due to their lack of capacity to produce. Supply chain problems are also having a direct impact on prices. In December, twenty-one commodities were reported up in prices, while not one was reported down. Add in expectations for further stimulus in the months ahead, and the formula for a further pickup in inflation looks likely. On the jobs front, the employment index dropped into contraction territory at 48.2 from 51.5 in November. Here, too, the pandemic has put business back on their heels, as companies in the restaurant industry reduced staff due to increased restrictions. We expect the lull in employment growth to be temporary, as we get through the rest of the winter and look forward towards spring. We have two vaccines currently being distributed, and more on the way. With each day we are one day closer to getting back to “normal.” The economy - and the labor market - have a path of growth ahead in 2021.

ISM Services: Prices Index
 SA, 50+ = Economy Expanding



ISM Services: Services PMI Composite Index
 SA, 50+=Increasing



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Dec-20	Nov-20	Oct-20	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	57.2	55.9	56.6	56.6	57.1	54.9
Business Activity	59.4	58.0	61.2	59.5	61.9	57.0
New Orders	58.5	57.2	58.8	58.2	60.1	55.3
Employment	48.2	51.5	50.1	49.9	48.6	54.8
Supplier Deliveries (NSA)	62.8	57.0	56.2	58.7	57.8	52.5
Prices	64.8	66.1	63.9	64.9	62.6	59.3

Source: Institute for Supply Management