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## January ISM Non-Manufacturing Index

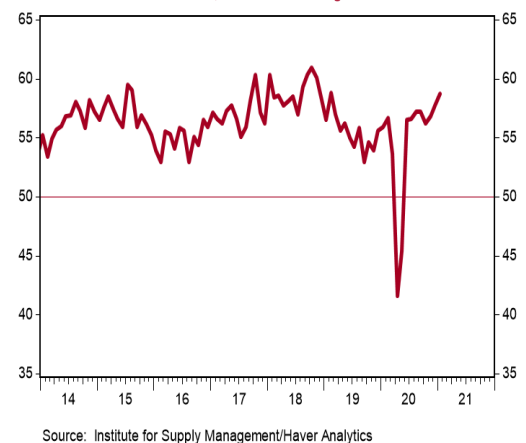
- The ISM Non-Manufacturing index rose to 58.7 in January, easily beating the consensus expected decline to 56.7. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity were mixed in January, but all stand above 50, signaling growth. The employment index jumped to 55.2 from 48.7 in December, while the new orders index rose to 61.8 from 58.6. The supplier deliveries index declined to 57.8 from 62.8 in December, and the business activity index fell to 59.9 from 60.5.
- The prices paid index declined to 64.2 from 64.4 in December.

**Implications:** Service sector activity surprised to the upside to start 2021, rising to 58.7 in January while the consensus expected a decline. And of the eighteen industries included in the ISM survey, fourteen reported growth on the month (four reported decline). The pandemic remains the driving force surrounding cautious optimism from the service sector. Restaurants deal with partial – and in cases, complete – shutdowns of in-person dining, while labor shortages and supplier delays are holding back even faster growth. That said, respondent comments were overwhelmingly positive, with rising orders helping to lift the outlook for the year ahead. The two most forward-looking indices – business activity and new orders – moved in opposite directions in January, but both remain well in expansion territory. New orders hit a six-month high of 61.8, aided by companies kicking off new projects to start the year. Meanwhile, business activity fell to a still robust 59.9 in January. Given the strength in orders, activity looks 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), declined to 57.8 in January from 62.8. Difficulties finding labor, port congestion, trucking delays, and import shortages continue to weigh on activity. Supply chain problems are also having a direct impact on prices. In January, twenty-five 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 jumped back into expansion territory at 55.2 from 48.7 in December. We expect job growth will remain subdued early in the year as vaccine distribution ramps up and states deal with elevated case levels. But the lull in employment growth will be temporary, and we forecast a significant pick-up in job growth as we move toward the second half of the year. 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.” In other news this morning, the ADP employment report showed 174,000 private-sector jobs gained in January, well above the consensus expected gain of 70,000. Plugging this into our models suggests a nonfarm payroll gain of about 105,000 with the unemployment rate remaining at 6.7%. In other recent news, cars and light trucks were sold at a 16.63 million annual rate in January. Sales were up 2.5% from December, but down 1.5% from a year ago. Expect sales to remain solid over the next few months as the economy moves back towards reopening and continues to heal.

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



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



<b>Non-Manufacturing ISM Index</b> <i>Seasonally Adjusted Unless Noted</i>	<b>Jan-21</b>	<b>Dec-20</b>	<b>Nov-20</b>	<b>3-month moving avg</b>	<b>6-month moving avg</b>	<b>Year-ago level</b>
<b>Composite Index</b>	<b>58.7</b>	57.7	56.8	57.7	57.3	55.9
<b>Business Activity</b>	<b>59.9</b>	60.5	59.6	60.0	61.1	60.6
<b>New Orders</b>	<b>61.8</b>	58.6	59.0	59.8	59.4	57.2
<b>Employment</b>	<b>55.2</b>	48.7	51.5	51.8	50.5	54.0
<b>Supplier Deliveries (NSA)</b>	<b>57.8</b>	62.8	57.1	59.2	58.2	51.8
<b>Prices</b>	<b>64.2</b>	64.4	63.9	64.2	62.8	55.8

Source: Institute for Supply Management

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