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# January ISM Non-Manufacturing Index

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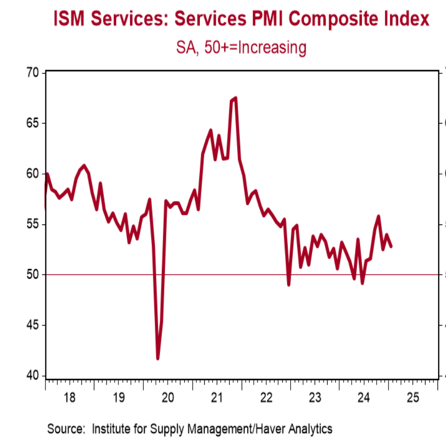
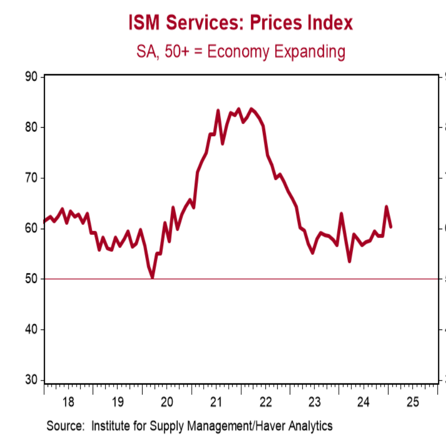
- The ISM Non-Manufacturing index declined to 52.8 in January, lagging the consensus expected 54.0. (Levels above 50 signal expansion; levels below signal contraction.)

- The major measures of activity were mixed in January. The new orders index declined to 51.3 from 54.4, while the business activity index fell to 54.5 from 58.0. The employment index rose to 52.3 from 51.3 and the supplier deliveries index ticked up to 53.0 from 52.5.

- The prices paid index declined to 60.4 in January from 64.4 in December.




**Implications**: Activity in the US service sector continued expanding in January but at a slower pace. The ISM Services index missed consensus expectations and declined to 52.8 in January, as both production and demand lost momentum. Looking at the details of the report, fourteen out of eighteen major service industries reported growth in the month while three reported contraction. The decline in the overall index was driven by slower growth for business activity and new orders; the business activity index fell to a five-month low of 54.5, while the new orders index declined to the lowest level in seven months at 51.3. That said, poor weather conditions in January were highlighted by many respondents as impacting business levels and production, so the pullback should be taken with a grain of salt. Meanwhile, hiring in the service sector appears balanced, with the employment index increasing to 52.3, and six industries reporting an increase in employment versus five reporting a decrease. While the major issue for hiring in the service sector for the last several years has been a lack supply, that is no longer the case. A notable employment comment from the Transportation & Warehousing industry wrote, "The employment market is softening as we are seeing less natural turn and getting more and better-qualified applicants." Finally, and perhaps most important, inflation remains a major problem in the service sector. The highest reading for any major category was once again the prices index, which declined to a still-elevated 60.4. Like last month, many respondents mentioned preparations or concerns related to potential tariffs, but there was little mention of current business impacts. But it's important to remember inflation was already a problem before any new tariffs; case in point, fifteen major industries reported paying higher prices in January with none reporting paying lower prices. And while monetary policy is tight (the M2 measure of the money supply is down from its peak in early 2022), it is less tight than it was before the Federal Reserve began cutting rates in September. We believe there are serious risks that an overly aggressive path of cuts and/or the Treasury dipping into the Treasury General Account in response to the debt ceiling could bring with them a pickup in the growth rate of M2 measure of money, and with it a return of higher inflation. In other news this morning, ADP's measure of private payrolls increased 183,000 in January versus a consensus expected 150,000. We're estimating Friday's official report will show a nonfarm payroll gain of 179,000 with the unemployment rate remaining steady at 4.1%.

| Non-Manufacturing ISM Index<br>*Seasonally Adjusted Unless Noted* | Jan-25 | Dec-24 | Nov-24 | 3-month<br>*moving avg* | 6-month<br>*moving avg* | Year-ago<br>*level* |
|---|---|---|---|---|---|---|
| ***Composite Index*** | **52.8** | 54.0 | 52.5 | 53.1 | 53.5 | 53.2 |
| ***Business Activity*** | **54.5** | 58.0 | 55.5 | 56.0 | 56.4 | 55.5 |
| ***New Orders*** | **51.3** | 54.4 | 54.2 | 53.3 | 54.8 | 54.7 |
| ***Employment*** | **52.3** | 51.3 | 50.9 | 51.5 | 50.8 | 50.2 |
| ***Supplier Deliveries (NSA)*** | **53.0** | 52.5 | 49.5 | 51.7 | 52.2 | 52.4 |
| ***Prices*** | **60.4** | 64.4 | 58.5 | 61.1 | 59.9 | 62.9 |

*Source: Institute for Supply Management*