February 3, 2017

TD Economics

Data Release: U.S. services sector activity held steady in January

- After rising for two consecutive months, the Institute for Supply Management's (ISM) non-manufacturing index took a slight breather in January, easing by 0.1 to 56.5. The headline print surprised to the downside, with economists expecting the index to increase to 57.0.
- New orders fell 2.1 points from an eight month high to a still strong 58.6. Business activity also ticked lower, down 0.6 points, erasing all of the prior month's gain.
- Trade indicators went in opposite directions. New export orders declined by 5.0 points, falling into contractionary territory (48.0) for the first time since August 2016, while the imports sub-index rose by 4 points to 54.0.
- The employment sub index was a definite bright spot, rising by 2.0 points to 54.7, making up for most of the prior month's decline. Prices paid (+2.9 to 59) also rose on the month, as did backlog of orders (+2.0 to 50) and supplier deliveries (+0.5 to 52.5).
- Overall the comments from contacts were largely positive, with two thirds of the 18 non-manufacturing industries surveyed reporting growth in January. Five reported declines in January – Real Estate, Rental & Leasing; Educational Services; Transportation & Warehousing; Information; and Arts, Entertainment & Recreation.

Key Implications

- Contrary to its manufacturing counterpart, which continued to rise for the fifth consecutive month, the ISM non-manufacturing index largely held steady in January, following two consecutive monthly gains. The index is still at its highest level since September 2016.
- Despite some pullback in the main two sub-indexes, activity and new orders, domestic indicators overall appear to be strong. In particular, the employment indicator rose by 2.0 points, making up for most of the prior month's decline, and corroborating this morning's solid employment report. Moreover, the prices paid sub-index rose strongly, matching its highest level in over two years.
- The only really discouraging aspect of the report was the export subcomponent's decline into contractionary territory. Sustained dollar strength has made U.S. services more expensive globally and will likely continue to act as a drag on service firms that depend on global demand.
- All told, this report is unlikely to move markets given that it follows this morning's jobs report, with the strength seen in the employment sub index highlighted in the earlier jobs report which indicated that many private services sectors saw strong gains on the month (for more details please see our earlier note here). While, the rise in prices paid within the ISM report will likely provide hawkish leaning FOMC members with some ammunition to push for additional hikes cycle, we remain of the view that only two will materialize this year, with the first one coming around the mid-year mark.

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