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# TD Economics

**Data Release: U.S. services sector momentum slows in March**

- The Institute for Supply Management's (ISM) non-manufacturing index weakened in March, falling 2.4 points to 55.2 – a print below market consensus, which called for a slight moderation to 57. The monthly pullback erases most of the gains made in the last five months. Still, the index is well into expansionary territory.

- The vast majority of sub-indicators deteriorated on the month, with inventory sentiment, new export orders and imports and being the only exception – the last two improving by 5.5 points apiece.

- Among the main sub-indicators, business activity and new orders fell 4.7 and 2.3 points respectively to 58.9, employment fell 3.6 points to 51.6 and prices fell 4.2 points to 53.5. The latter is still some 3.5 points above the year-ago level.

- Despite the pullback, comments on business conditions and the overall economy remained positive. All but three of the 18 non-manufacturing industries reported growth in March, with information, educational and professional services being the only exceptions.

**Key Implications**

- The ISM nonmanufacturing index followed its manufacturing cousin in decelerating in March, but by a greater degree and with broader weakness across sub-indicators. Nevertheless, when put into context, the index is still well in expansionary territory, industry comments remain largely positive and the vast majority of industries reported growth in March.

- With respect to the survey details, the significant pullback in the employment sub-index points to some potential softness in the employment report on Friday. Meanwhile, the prices sub-index remains above year-ago levels and is still indicative of rising inflationary pressures and supportive of the Fed's gradual interest rate hiking cycle.

- Putting the numbers together, results from both ISM surveys point to a notable improvement in activity for the first quarter of the year, but this is at odds with 'harder' economic data that suggest that the economy only advanced at a modest 1% pace. This divergence in momentum can be largely attributed to soft consumer spending and inventory adjustment, both of which are likely to be transitory.

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