

U.S. Data Review

- ISM services: constrained by Omicron
- Factory orders: aircraft-led drop in durable orders; petrol-led drop in nondurables
- Productivity: surge in Q4; moderate for the year

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ISM Services Index

The ISM services index fell 2.4 percentage points in January to 59.9 percent, a touch better than the expected reading of 59.5 percent. The decline followed a sharper fall in the prior month (off 6.1 percentage points), and the combined changes left the index noticeably below elevated readings seen during most of 2021. The measure, though, was unusually strong last year and thus results in 2021 make for a challenging comparison. The recent observation was still respectable relative to longer-run norms.

The spread of the Omicron variant is the most likely explanation for the recent easing in the headline index, and its influence was most apparent in the business activity component, which fell 8.4 percentage points in January after a drop of 4.2 percentage points in December. These changes occurred from a record reading in November, and thus the level of business activity was still firm relative to historical standards. The new orders component also fell, but only marginally (off 0.4 percentage point). The employment index slipped 2.4 percentage points, perhaps influenced more by worker shortages than slow activity.

The supplier delivery index rose 1.8 percentage points to 65.7 percent. The latest reading remained well below lofty totals seen much of last year, suggesting progress in dealing with supply-chain disruptions, but it is elevated relative to historical norms, signaling still-challenging conditions on the supply side. Supply issues also were evident in the price index published with the report, which remained quite high despite a drop of 1.6 percentage points (82.3 percent).

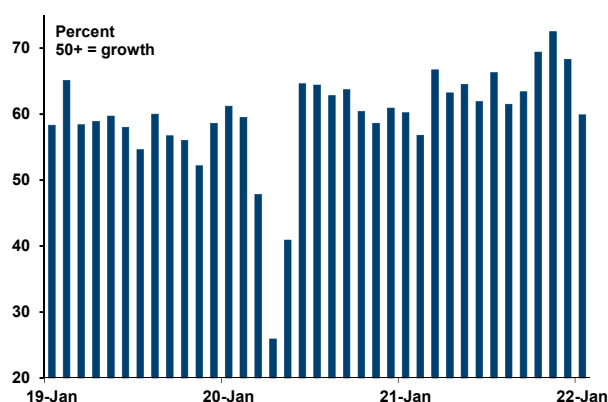
ISM Services: Monthly Indexes

	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
ISM Nonmfg. Composite	62.6	66.7	68.4	62.3	59.9
Business activity	63.4	69.4	72.5	68.3	59.9
New orders	64.2	69.0	68.3	62.1	61.7
Employment	54.1	52.8	57.0	54.7	52.3
Supplier deliveries*	68.8	75.7	75.7	63.9	65.7
Prices	79.5	83.0	83.0	83.9	82.3

* The supplier deliveries index is not seasonally adjusted. The index differs from the other components of the composite measure (business activity, new orders, employment) in interpretation. An index above 50 percent indicates slower deliveries and readings below 50 percent indicate faster deliveries.

Source: Institute for Supply Management via Haver Analytics

ISM Services: Business Activity Index



Source: Institute for Supply Management via Haver Analytics

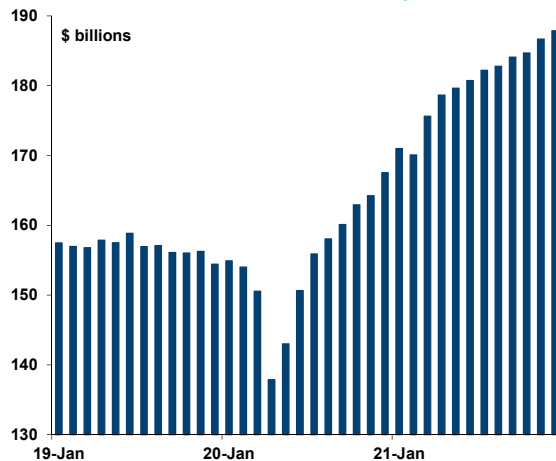
Factory Orders

Total factory orders fell 0.4 percent in December, exactly matching expectations. Both durable and nondurable bookings contributed to the decline (off 0.7 percent and 0.2 percent, respectively). The drop in the durable component was revised upward from the preliminary tally of -0.9 percent published on January 27. The softness in durable orders was led by a retreat of 13.5 percent in the volatile aircraft component (commercial and defense combined). Durable orders ex-transportation rose 0.6 percent, their 19th increase in the past 20 months.

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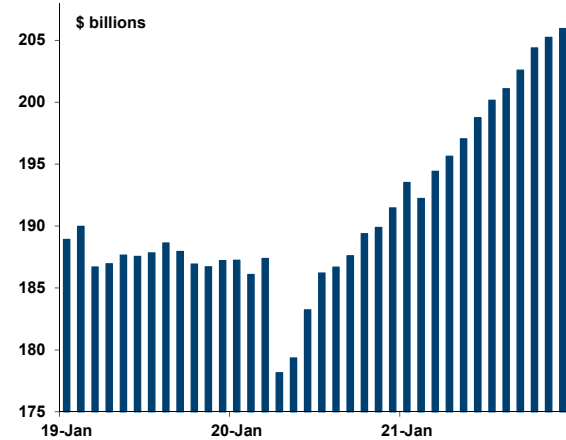
Nine of the 11 industries in the nondurable sector posted gains in new orders. However, two of the larger components (food and petroleum products) fell and offset the advances in other areas. Food orders had been moving along a firm upward trend during most of the current expansion, but the rate of growth started to slow last summer, and the dip of 0.2 percent in December ended a string of 15 consecutive increases. Petroleum and coal products posted a larger drop (off 2.1 percent), but a good portion of this retreat probably reflected lower prices (the price of West Texas intermediate crude oil fell 9.4 percent in December after a drop of 2.8 percent in November, although they are on the rise again). Excluding the petroleum and coal category, nondurable orders rose 0.3 percent, the 19th increase in the past 20 months.

Durable Goods Orders Ex. Transportation



Source: U.S. Census Bureau via Haver Analytics

Nondurable Goods Orders Ex. Petroleum

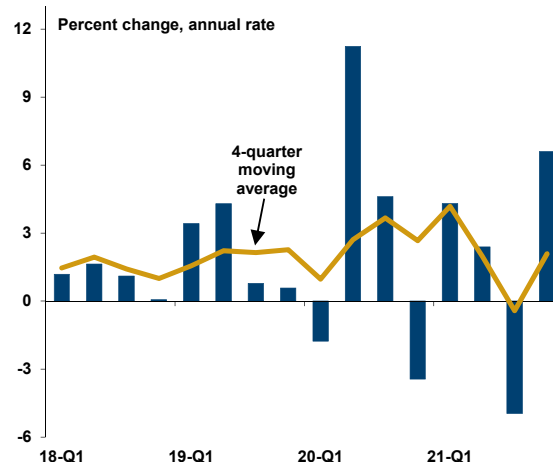


Source: U.S. Census Bureau via Haver Analytics

Productivity

Productivity in the nonfarm business sector jumped 6.6 percent (annual rate) in the fourth quarter, easily beating the expected increase of 3.9 percent. The measure of output used in this report rose 9.2 percent, notably stronger than the 6.9 percent increase in GDP (which also includes government and agriculture production). The gain in output was achieved with an increase of only 2.4 percent in labor hours, leaving a burst in productivity. The sizeable increase should be interpreted cautiously, as productivity often moves erratically. In this instance, the Q4 jump followed a decline of 5.0 percent in the third quarter. The increase over the four quarters of the year totaled 2.0 percent, a solid performance relative to historical standards. However, productivity tends to be strong in the early stages of a business expansion, and the advance so far in the current cycle trails results in other recovery periods.

Nonfarm Productivity



Source: Bureau of Labor Statistics via Haver Analytics

The pressure seen in measures of wages and benefits also was evident in this report, as labor compensation per hour rose at an annual rate of 6.9 percent. The jump in productivity was nearly equal to the gain in compensation, leaving a minuscule increase in unit labor costs (0.3 percent). Unit labor costs, like productivity, tend to be volatile. The subdued increase in Q4 followed sharp increases in the prior two quarters, which left an increase of 3.1 percent over the four quarters of 2021, a noticeable inflation impulse.