

U.S. Data Review

- ISM services: disappointing results in all four components
- Factory orders: upward trends continue, at least partly due to higher prices
- Revised productivity: modest adjustment to productivity; labor comp slightly firmer

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ISM Services Index

The services index published by the Institute for Supply Management fell 3.4 percentage points in February to 56.5 percent in February, noticeably softer than the expected reading of 61.1 percent. The decline marked the third consecutive retreat, with the cumulative changes pushing the index to the low portion of the range from the current expansion (chart).

The softness was broadly based among the components, as new orders, business activity, and employment all eased noticeably and moved to the low portions of their recent ranges. The employment index posted the smallest decline at 3.8 percentage points, but it fell below the 50 percent threshold that separates expansion from contraction. This decline perhaps reflected difficulty in finding workers rather than soft demand. The new orders component posted the largest drop (off 5.6 percentage points to 56.1 percent). Only two observations in the current expansion were lower: May 2020, when the expansion was just getting started, and February 2021, when adverse weather weighed heavily.

The supplier delivery component rose slightly in February, contributing positively to the headline index. However, we do not view an increase in this measure as a positive development at this time. The elevated nature of the index suggests that supply-chain problems remain an issue; we would like to see this measure receding. A slight increase in the prices index from an already high level (up 0.8 percentage point to 83.1 percent) also signaled that supply chains remain strained.

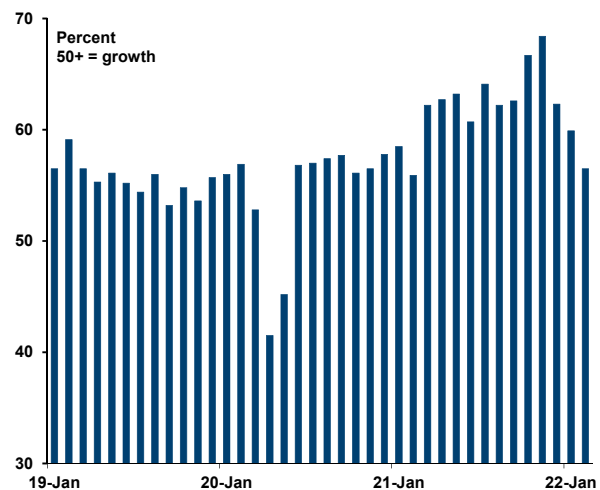
ISM Services: Monthly Indexes

	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22
ISM Nonmfg. Composite	66.7	68.4	62.3	59.9	56.5
Business activity	69.4	72.5	68.3	59.9	55.1
New orders	69.0	68.3	62.1	61.7	56.1
Employment	52.8	57.0	54.7	52.3	48.5
Supplier deliveries*	75.7	75.7	63.9	65.7	66.2
Prices	83.0	83.0	83.9	82.3	83.1

* 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 Index



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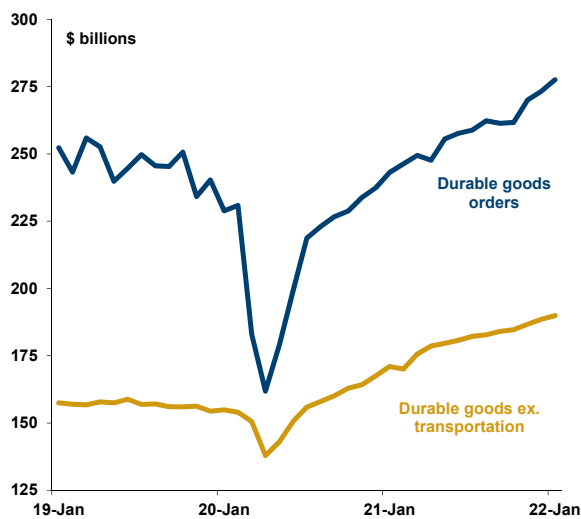
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Factory Orders

Total factory orders rose 1.4 percent in January, easily beating the expected increase of 0.7 percent. The surprise occurred in the nondurable area, where bookings rose 1.2 percent rather than a decline of 0.1 or 0.2 percent implied by the consensus forecast. Some of the increase in nondurable orders occurred in the petroleum and coal category, perhaps influenced by higher prices. Orders for nondurable goods excluding petroleum and coal also contributed with an increase of 0.8 percent, the 20th gain in the past 21 months. As in the petroleum category, higher prices have most likely played a role in recent nominal increases.

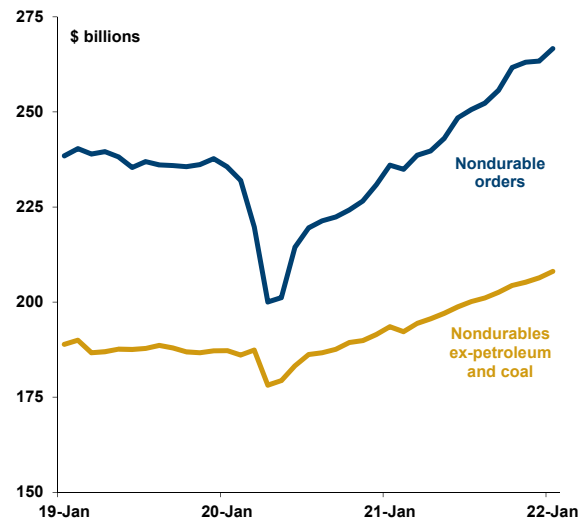
Orders for durable goods rose 1.6 percent in January, unrevised from the preliminary estimate published last week. A jump of 15.6 percent in orders for commercial aircraft had a strong influence on durable orders, but bookings excluding transportation items also contributed with an increase of 0.7 percent. Again, one wonders about the influence of higher prices.

Durable Goods Orders



Source: U.S. Census Bureau via Haver Analytics

Nondurable Goods Orders



Source: U.S. Census Bureau via Haver Analytics

Productivity

Productivity growth in the fourth quarter was unrevised at 6.6 percent. Output growth as measured in this report was a touch lighter than initially estimated (9.1 percent rather than 9.2 percent) but hours worked apparently were a touch lighter as well (the report showed no revision at 2.4 percent, but rounding is undoubtedly an issue). Labor compensation per hour showed an upward revision, with growth now totaling 7.5 percent rather than 6.9 percent. The adjustment to compensation per hour led to an upward revision to unit labor costs (0.9 percent rather than 0.3 percent).

Today's report included benchmark revisions that influenced results in the prior few years. Adjustments were mixed, with Q2 and Q3 showing firmer productivity growth but Q1 showing a smaller advance than previously believed. These adjustments, along with modest shifts in prior years, left little net change. Average productivity growth in the past 12 quarters now totals 2.4 percent rather than 2.3 percent. Compensation per hour has increased at an average annual rate of 6.2 percent in the past 12 quarters rather than 5.9 percent.