U.S. Data Review

- ISM services: signaling contraction; led by a plunge in new orders
- Factory orders: softness in manufacturing

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ISM Services Index

- The services index published by the Institute for Supply Management fell 6.9 index points in December to 49.6, a sharp deviation from the expected easing of 1.5 index points to 55.0. The measure has fallen since moving to a record high of 68.4 in November 2021, but most recent readings were in the mid-50s, signaling solid activity despite headwinds from tight financial conditions. The latest result suggests that the considerable challenges facing services industries finally caught up to firms in December.

- We viewed the business activity component as facing downside risks after increasing 9.0 index points to a 2022 high of 64.7 in November, and the measure did indeed reverse course in the latest month with a drop of 10.0 index points to 54.7.

- New orders declined for the fourth consecutive month, with the plunge of 10.8 index points in December the largest move by far. The latest reading of 45.2 signaled contraction in new orders for the first time since May 2020, when the economy was still facing acute challenges from Covid-related lockdowns. The contractionary reading also signals further downside risks to business activity in coming months.

- The employment index has bounced between expansion and contraction for much of 2022. It eased back into contraction territory in December, falling 1.7 index points to 49.8. Some survey respondents indicated issues replacing workers who left, while others emphasized caution in hiring new employees because of an uncertain outlook.

- The supplier deliveries component dropped 5.3 index points to 48.5, the first reading signaling faster deliveries since May 2019. The measure has fallen from 75.7 in October/November of last year, and a record high of 78.3 in April 2020. Slack demand and further improvement in supply chains were both cited in the December survey.
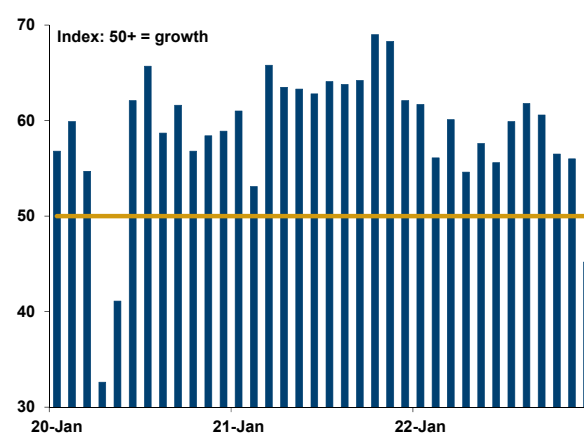
ISM Services: Monthly Indexes

	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
ISM Nonmfg. Composite	56.9	56.7	54.4	56.5	49.6
Business activity	60.9	59.1	55.7	64.7	54.7
New orders	61.8	60.6	56.5	56.0	45.2
Employment	50.2	53.0	49.1	51.5	49.8
Supplier deliveries*	54.5	53.9	56.2	53.8	48.5
Prices	71.5	68.7	70.7	70.0	67.6

* 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: New Orders Index

Index: 50+ = growth

Source: Institute for Supply Management via Haver Analytics

- The prices index is down from a record of 84.6 in April, but it is elevated from a longer-term perspective (-2.4 index points to 67.6). Labor rather than raw materials and commodities figure more importantly into costs in the services industries. The December employment report (published earlier today) showed some easing in wage pressure, but not yet enough to meaningfully alter high employment costs faced by firms in the services sector.
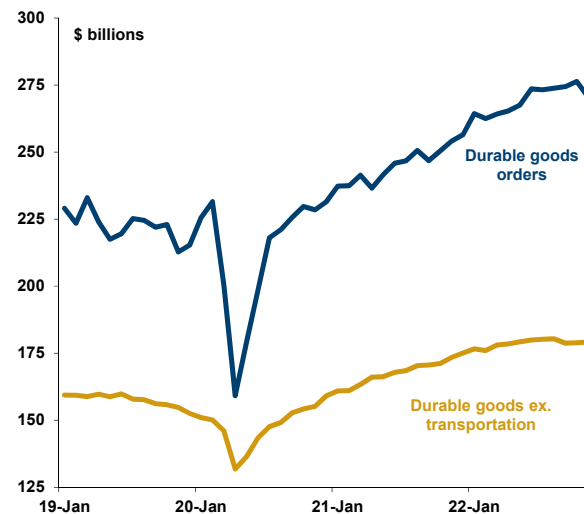
Factory Orders

- Factory orders fell 1.8 percent in November, softer than the expected decline of 1.0 percent. The already published change in orders for durable goods was revised only marginally (off 2.13 percent versus the preliminary change of -2.09 percent). The surprise occurred in the nondurable area, where bookings fell 1.8 percent versus an implied expectation of no change.

- Much of the retreat in the nondurable area reflected a drop of 5.5 percent in orders for petroleum and coal products, which was influenced by lower prices (the price of West Texas Intermediate crude oil fell approximately 3.0 percent in November). Orders for nondurable goods other than petroleum and coal products fell 0.1 percent (chart, left). The change was small, but it marked the third consecutive decline after increasing in 26 of the prior 28 months, thus signaling softer activity.

- The decline of 2.1 percent in durable orders was led by a drop of 6.3 percent in the transportation component (primarily aircraft, off 30.4 percent). Excluding transportation, durable orders rose 0.1 percent (chart, right). The small increase was not large enough to alter the downward drift in non-transportation bookings since the early summer. This nominal series has been supported to a large degree in the past two years by higher prices. Using the PPI for manufacturing to deflate the nominal figures would show a marked downward trend since early 2021.

Orders for Nondurable Goods
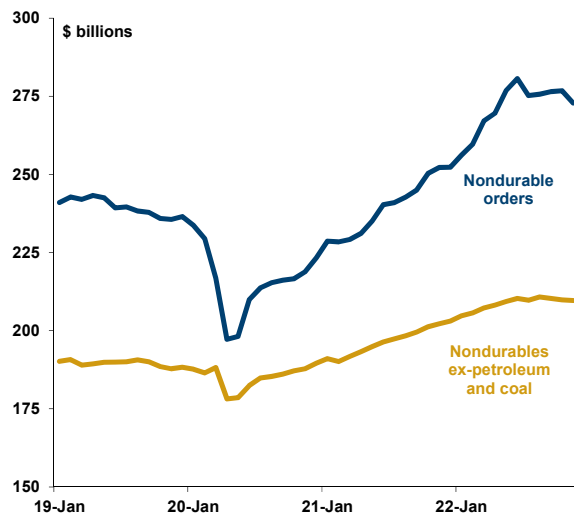
Source: U.S. Census Bureau via Haver Analytics

Orders for Durable Goods

Source: U.S. Census Bureau via Haver Analytics