

U.S. Data Review

- ISM services: firm in August

Lawrence Werther

Daiwa Capital Markets America
 212-612-6393
lawrence.werther@us.daiwacm.com

ISM Services Index

- The service index published by the Institute for Supply Management rose 1.8 index points in August to 54.5, outperforming by a wide margin the market expectation of a dip of 0.2 index point to 52.5. The latest observation, which was the firmest since a reading of 55.1 in February, signals a solid underlying performance in the service sector of the U.S. economy (chart, below left).
- The employment component led the advance in August with a jump of 4.0 index points to 54.7. The August reading trailed the highest of the current expansion (57.9 in April 2021), but it far exceeded the average of 51.3 in the first seven months of 2023 and represented a firm performance from a longer-term perspective.
- Business activity, akin to the production measure in the ISM factory gauge, advanced 0.2 index point to 57.3. The latest observation was below the 2023 high of 60.4 in January, remaining in the middle of the range of the current expansion, but it is respectable given headwinds facing the economy from restrictive monetary policy.
- Order flows continued to perform reasonably well (+2.5 index points to 57.5), with the pickup raising the possibility of another increase in business activity in September.
- The prices index rose 2.1 points to 58.9. The latest reading was well below observations in 2021 and 2022 that indicated elevated cost pressures, but it is stirring again after a recent low of 54.1 in June. The recent shift in costs to firms could potentially spill over to consumer service costs. Fed officials are currently monitoring services costs, as they are essential for inflation to continue moderating toward the two percent target.

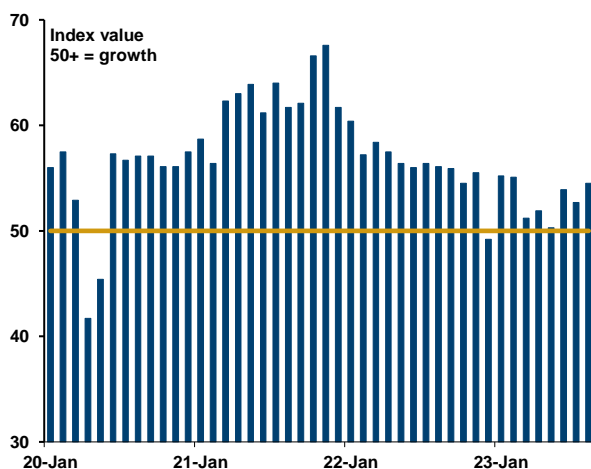
ISM Services: Monthly Indexes*

| | Apr-23 | May-23 | Jun-23 | Jul-23 | Aug-23 |
|------------------------------|--------|--------|--------|--------|--------|
| ISM Nonmfg. Composite | 51.9 | 50.3 | 53.9 | 52.7 | 54.5 |
| Business activity | 52.0 | 51.5 | 59.2 | 57.1 | 57.3 |
| New orders | 56.1 | 52.9 | 55.5 | 55.0 | 57.5 |
| Employment | 50.8 | 49.2 | 53.1 | 50.7 | 54.7 |
| Supplier deliveries* | 48.6 | 47.7 | 47.6 | 48.1 | 48.5 |
| Prices | 59.6 | 56.2 | 54.1 | 56.8 | 58.9 |

* 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.

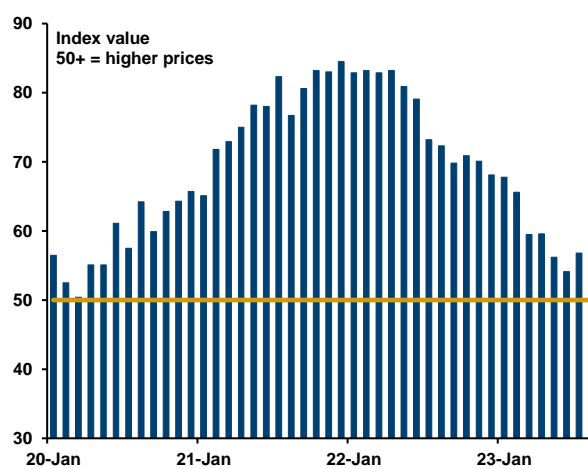
Source: Institute for Supply Management via Haver Analytics

ISM Services: Headline Index



Source: Institute for Supply Management via Haver Analytics

ISM Services: Prices Index



Source: Institute for Supply Management via Haver Analytics

This report is issued by Daiwa Securities Group Inc. through its relevant group companies. Daiwa Securities Group Inc. is the global brand name of Daiwa Securities Co. Ltd., Tokyo ("Daiwa Securities") and its subsidiaries worldwide that are authorized to do business within their respective jurisdictions. These include: Daiwa Capital Markets Hong Kong Ltd. (Hong Kong), regulated by the Hong Kong Securities and Futures Commission, Daiwa Capital Markets Europe Limited (London), regulated by the Financial Conduct Authority and a member of the London Stock Exchange, and Daiwa Capital Markets America Inc. (New York), a U.S. broker-dealer registered with the U.S. Securities and Exchange Commission, a futures commission merchant regulated by the U.S. Commodity Futures Trading Commission, and a primary dealer in U.S. government securities. The data contained in this report were taken from statistical services, reports in our possession, and from other sources believed to be reliable. The opinions and estimates expressed are our own, and we make no representation or guarantee either as to accuracy, completeness or as to the existence of other facts or interpretations that might be significant.