Daiwa Capital Markets

U.S. Data Review

- ISM services: dip in composite led by sizable decline in new orders, though still indicating expansion for the 22nd consecutive month; prices remain elevated

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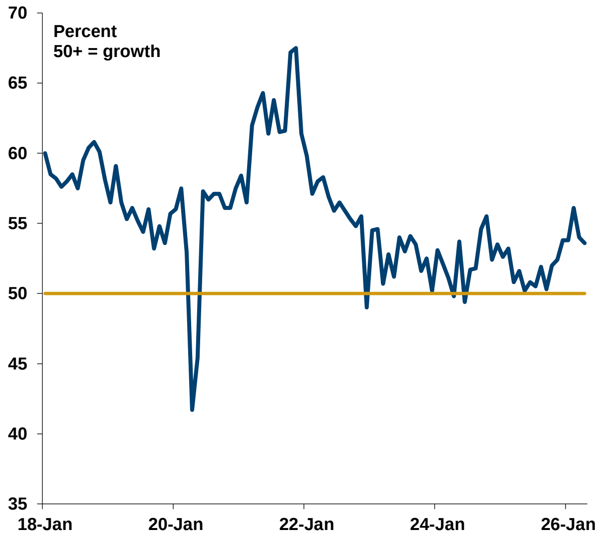
ISM Services Index

- The Institute for Supply Management's services PMI eased by 0.4 percentage point to 53.6 percent in April – essentially in line with the median expectation from the Bloomberg economist survey (53.7). Nonetheless, despite the latest shift, this metric has indicated expansion for the service-providing sector of the economy for 22 consecutive months, suggesting the U.S. economy remains on track in early Q2.

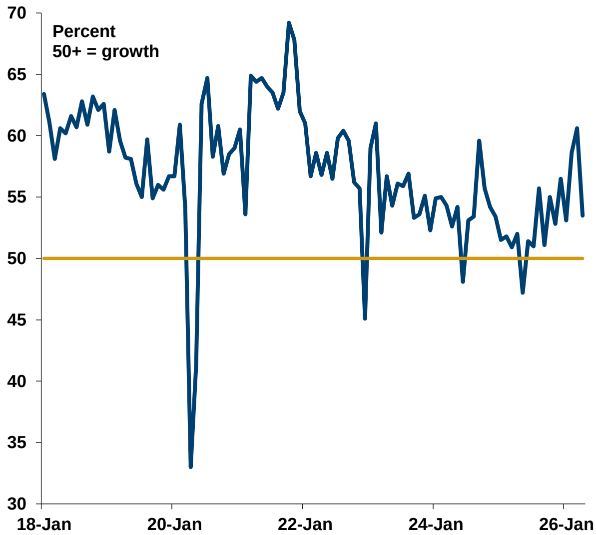
- Performance across components was mixed. Of the four subindexes that factor into the calculation of the composite, three indicated expansion (unchanged from March). The most pronounced shift came in new orders, which fell 7.1-percentage points – although it remained above 50.0 percent for the 11th straight month (53.5). As indicated by Steve Miller, Chair of the Institute for Supply Management Services Business Survey Committee, in the official release: "Ongoing commentary that increased ordering is related to getting ahead of future price increases seems to have been more applicable to March than April."

ISM Services: Headline Index



Source: Institute for Supply Management via Haver Analytics

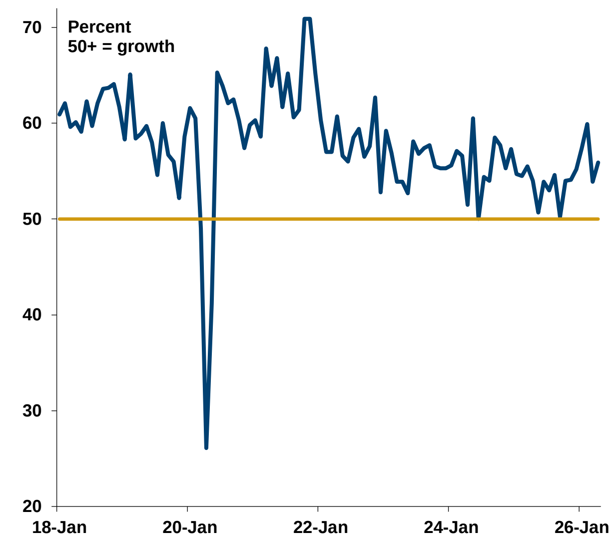
ISM Services: New Orders Index



Source: Institute for Supply Management via Haver Analytics

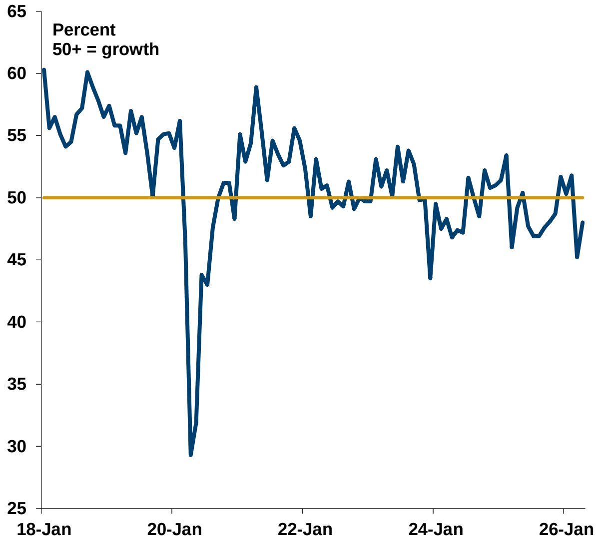
- Turning to other components, following a notable drop of 6.0 percentage points in the prior report, business activity retraced part of that loss in April, posting an above-50.0 reading for the 22nd consecutive month (+2.0 percentage points to 55.9 percent). Concurrently, while improved in April, employment indicated contraction for the second straight month (and eighth in the past 11; +2.8 percentage points to 48.0 percent), which raises the possibility of lackluster private-sector payroll growth (April payrolls data from the BLS is on track to be released this Friday).

ISM Services: Business Activity Index



Source: Institute for Supply Management via Haver Analytics

ISM Services: Employment Index

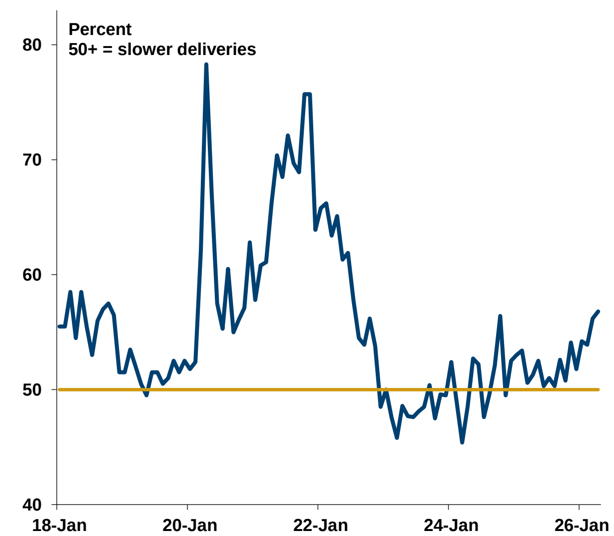


Source: Institute for Supply Management via Haver Analytics

- Supplier deliveries rose 0.6 percentage point to 56.8 percent in April, signaling “slower” delivery times for the 17th consecutive month (note that readings within the general vicinity of 50.0 percent suggest well-functioning supply chains). The recent upward tilt seen in this metric is attributable, in no small part, to continued tensions in the Middle East, with one survey respondent noting: “Supplier deliveries have slowed slightly, reflecting transportation delays, longer lead times for certain materials, and ongoing supply chain adjustments.”

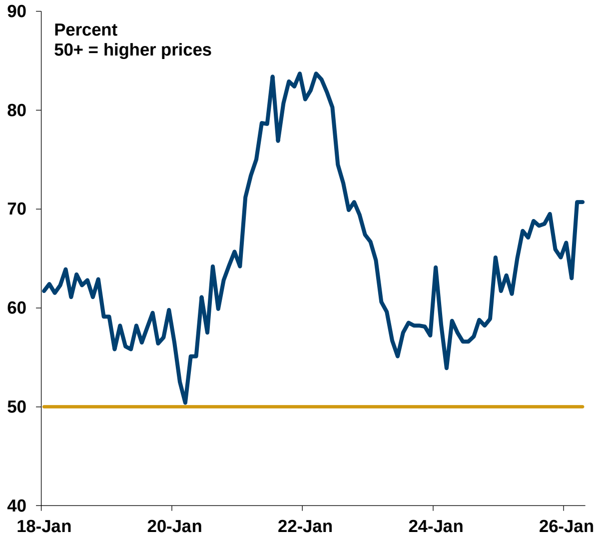
- The prices index, which doesn’t factor into the composite, stood pat at 70.7 percent in April – which was the highest since an equal-sized observation in October 2022. Following the latest move, this component has held above 60.0 percent for the past 17 months – reflective of ongoing acute pressure stemming from recent economic shocks. Concerningly, all 18 industries surveyed by ISM reported an increase in prices paid in April (versus 17 in the prior month). Moreover, considering that some firms have indicated that they have yet to see meaningful impact from elevated energy prices, this index could face further upward pressure in coming months.

ISM Services: Supplier Deliveries Index



Source: Institute for Supply Management via Haver Analytics

ISM Services: Prices Index



Source: Institute for Supply Management via Haver Analytics