

Datanote: US ISM Services Survey, February

In one line: Provides some reassurance on service sector activity.

- The ISM services index ticked up to 53.5 in February, from 52.8, a bit above the consensus, 52.5.

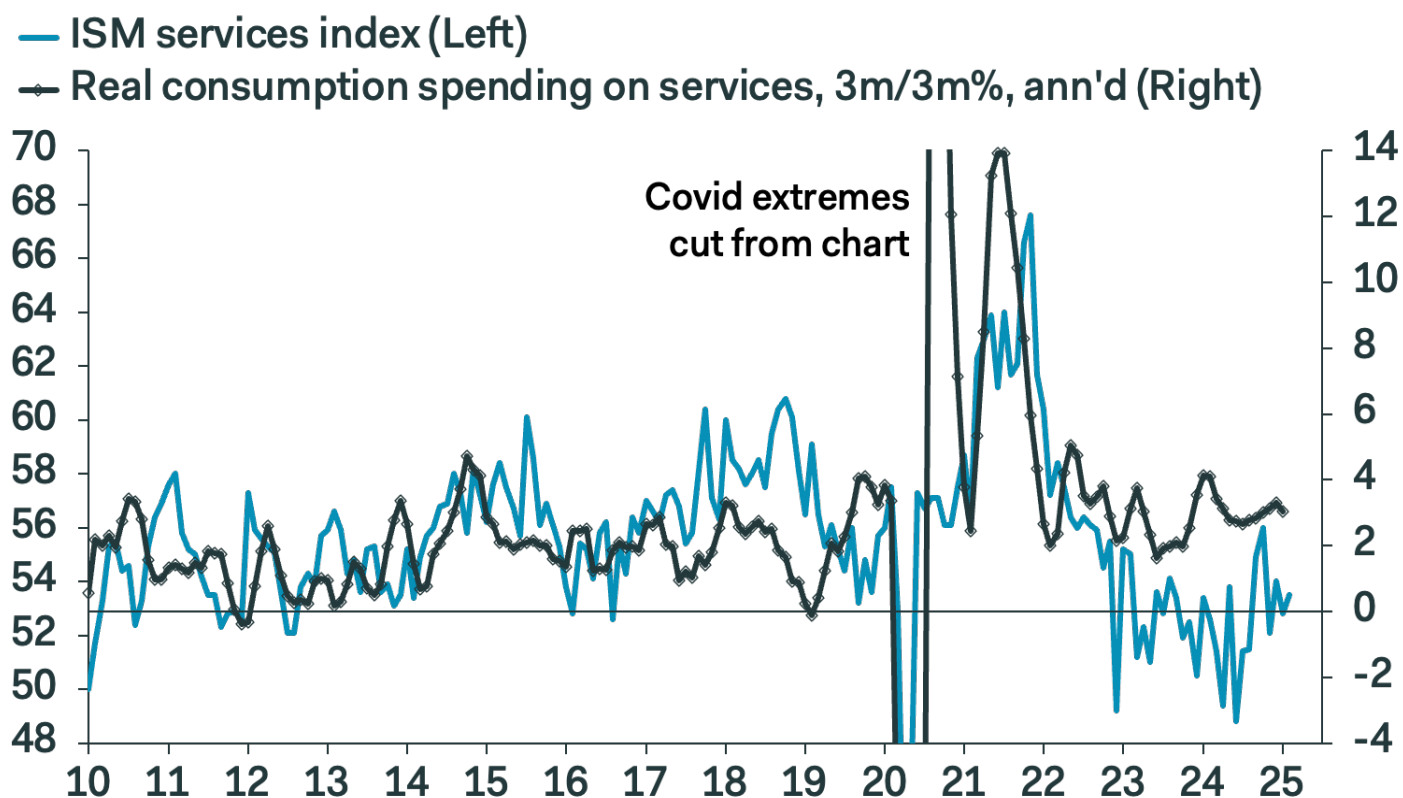
The headline ISM services index is poorly correlated with consumers' spending on services, but the slight

increase in February nonetheless provides some reassurance that growth in the sector still is holding up relatively well. The drop in the index in January, and the plunge in the S&P Global Services PMI to just 49.7 in the preliminary February release—revised up to 51.0 in the final release earlier this morning—had suggested that households and businesses might be cutting back sharply on spending amid heightened policy uncertainty around tariffs and federal spending.

The pick-up in the headline index partly reflects an increase in the new orders index—to 52.2 from 51.3—but about 60% of the overall gain in the headline is due to a climb in the employment index to an 18-month high of 53.9, from 52.3. The employment index is now consistent with a clear acceleration in growth in private payrolls, although we are inclined to downplay this signal, given that most other reliable leading indicators of services employment remain far less upbeat.

Finally, the prices paid index increased to 62.6, from 60.4, its second highest level in a year. Services companies might be facing some new cost pressures from suppliers in anticipation of new tariffs—many industries cited tariffs as a key issue in the survey commentary—but the prices index remains at a level roughly consistent with underlying services inflation drifting back to around its pre-Covid pace. Crucially, several reliable indicators suggest that a relatively

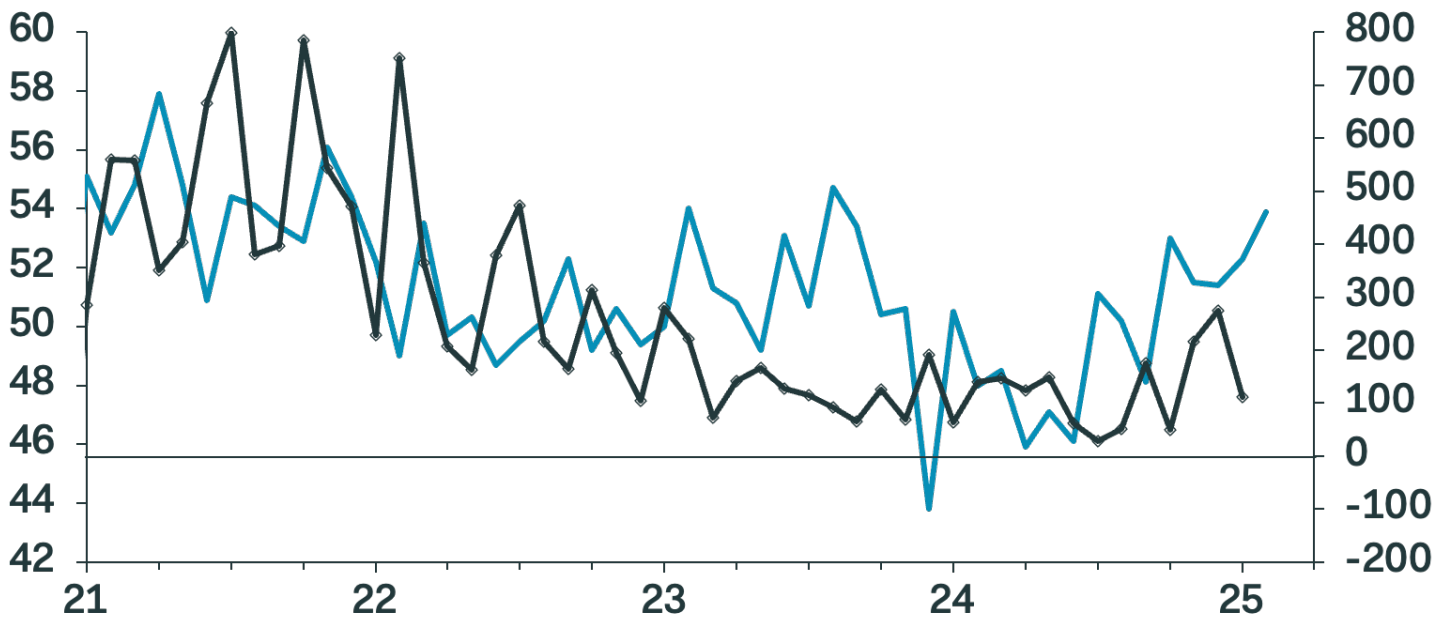
anemic labor market will mean that growth in wages—the biggest cost by far for most services companies—will continue to ease in the coming quarters. The labor market is too weak for the new tariffs to have second-round price effects via wage growth.



— S&P Global U.S. Services PMI (Left)
 — ISM Services Index (Right)



— ISM services employment index (Left)
 — Private services payrolls, monthly change, K (Right)



— ISM services prices index, advanced five months (Left)
— Market-based PCE services deflator ex-housing & utilities, y/y% (Right)

