

## **Datanote: US ISM Services Survey, March**

### **In one line: Cost pressures ease further for services companies**

- The ISM services index dropped to 51.4 in March, from 52.6, below the consensus, 52.8.

The small fall in the headline index is less downbeat than it looks at first, since roughly three-quarters of the decline is due to a further plunge in the

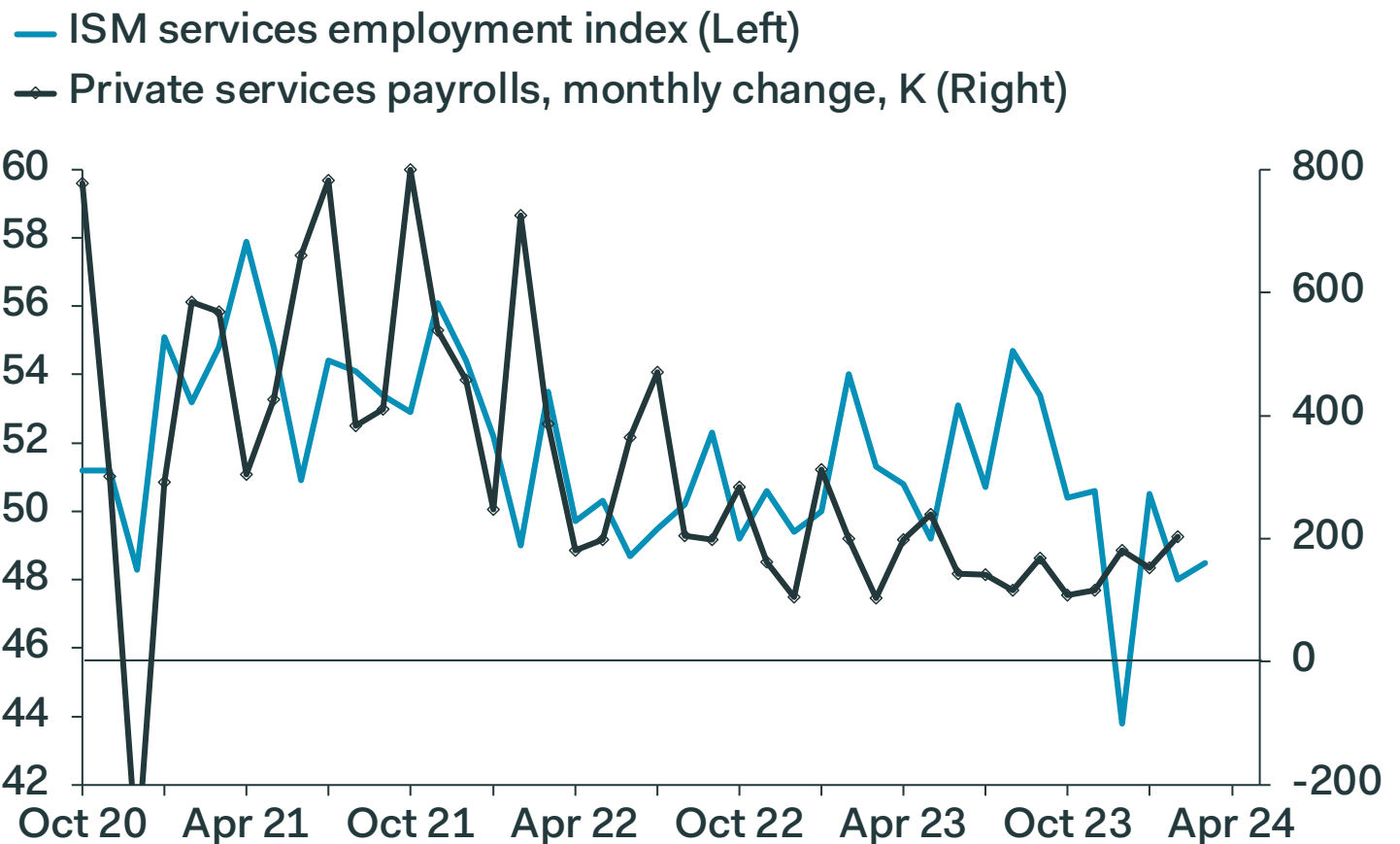
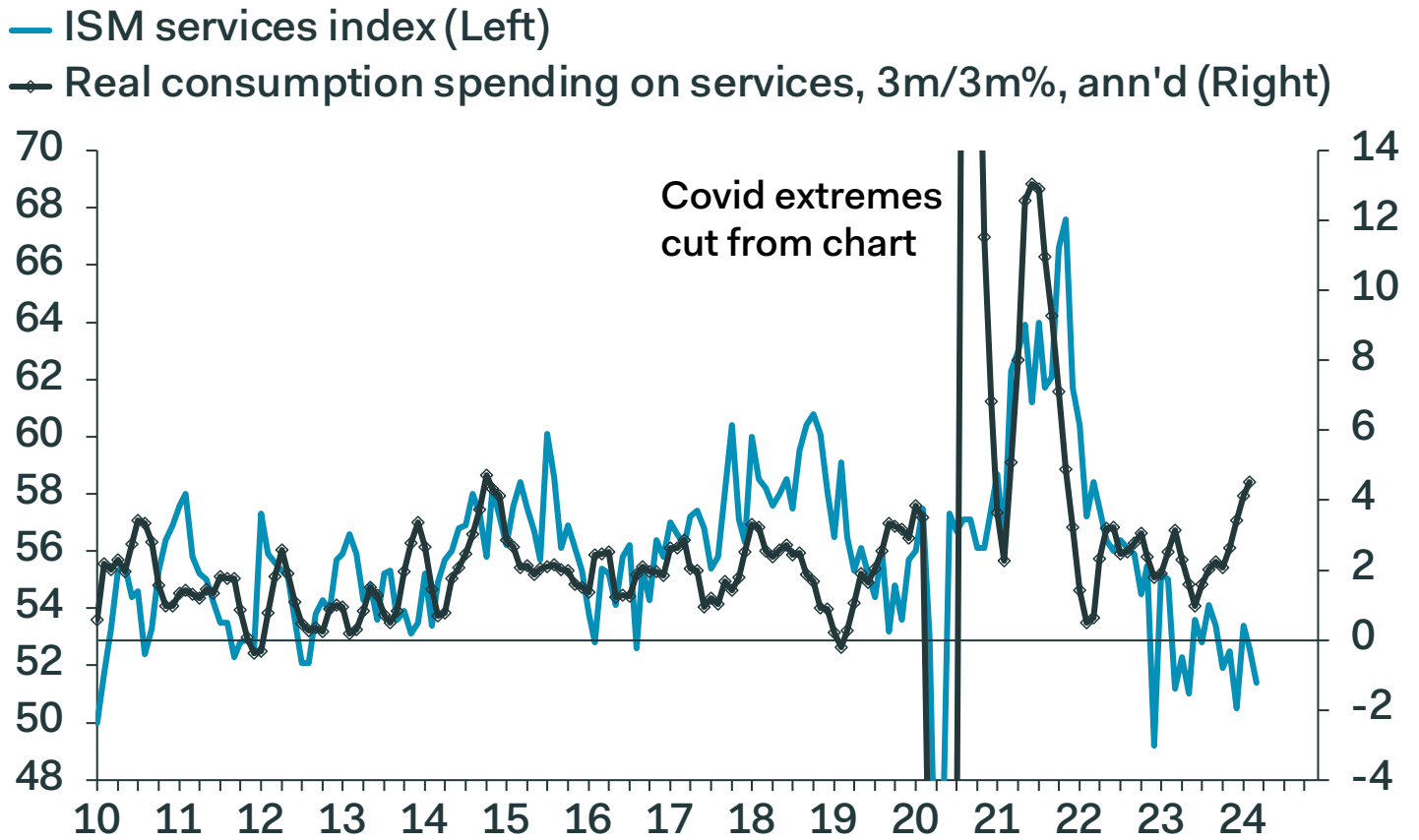
supplier delivery times subindex. More encouragingly, the business activity subindex ticked up again, to 57.4 from 57.2, reaching its highest level in six months. The new orders subindex dipped, but only to 54.4, from 56.1; it has been range-bound for roughly a year. The survey's employment subindex rose slightly in March, but it has been a pretty unreliable guide to the official nonfarm payroll numbers over the past year or so

In any case, the ISM services index

has been a poor guide to the strength of services activity over the past year or so, largely failing to signal the acceleration of growth in consumers' spending on services late last year and into early 2024. We expect a meaningful slowdown in services spending in the coming months, now that the bulk of consumers' excess pandemic savings are now exhausted and real after-tax income growth is weaker. Whether the ISM survey will clearly flag such a slowdown is another question.

The other clear message from this report is that cost pressure for services sector companies continue to ease. The prices paid index dropped by 5.2 points, to 53.4, its lowest level since March 2020. Monthly movements in this subindex should be treated with caution given its volatility, but the prices subindex has generally had a good leading relationship with core services inflation in the past, and is now consistent with underlying services inflation dropping to around pre-

COVID rates before long. Alongside the 3.5-point fall in the supplier delivery times subindex—indicating faster deliveries—to a record low, the survey's order backlogs subindex also plunged in March, by 5.5 points. Those two subindexes are less important now than in 2021-to-22, when supply-side constraints were a much bigger problem for services firms. But their joint plunge underlines the point that services inflation is much more likely to drop back than reaccelerate from here.



— ISM services prices paid index, advanced two months (Left)  
 — Core PCE services deflator ex-housing, y/y% (Right)



— Supplier delivery times index  
 — Backlog of orders index

