Datanote: US ISM Services Survey, April

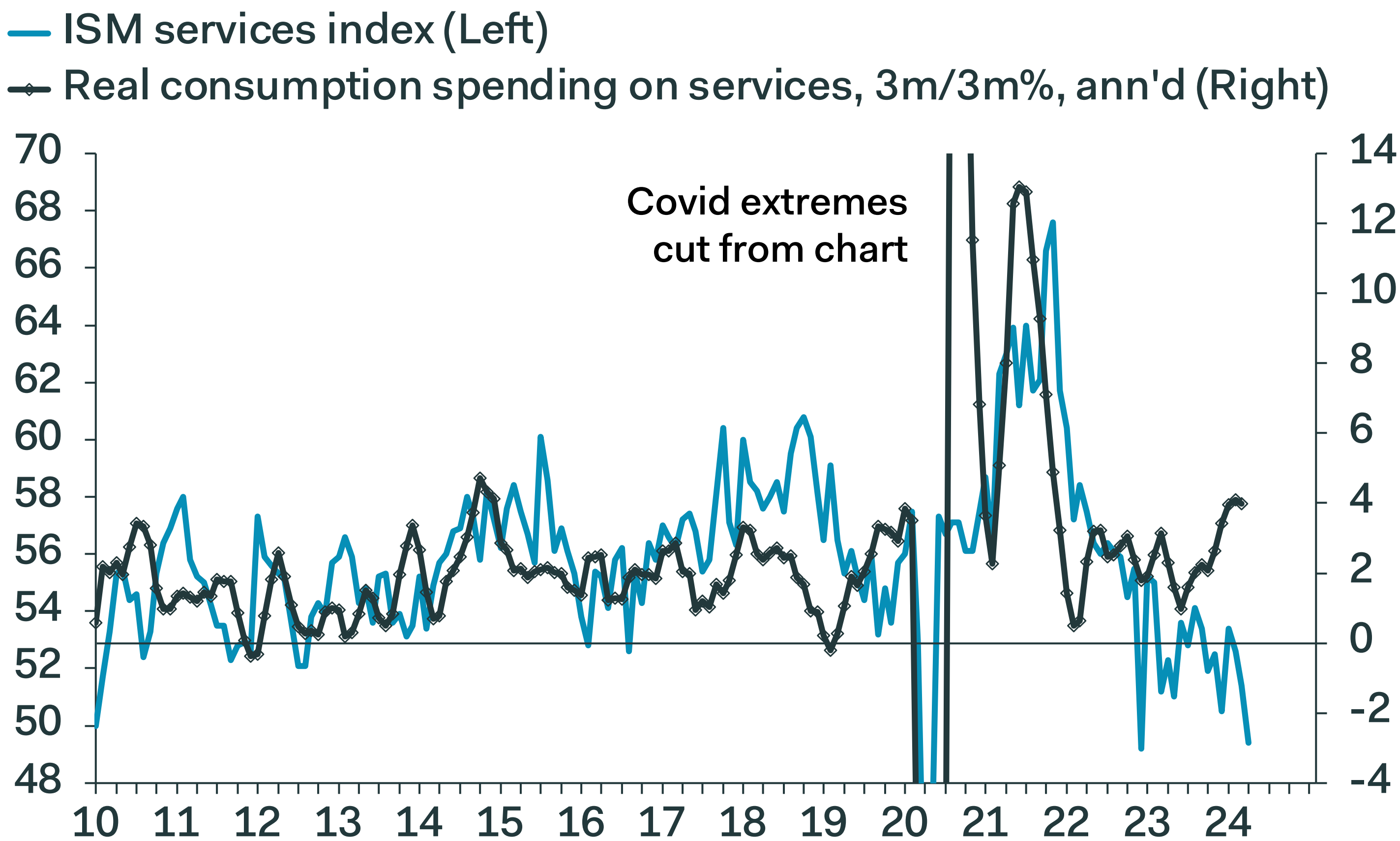
In one line: An ugly report, but don't call it stagflation

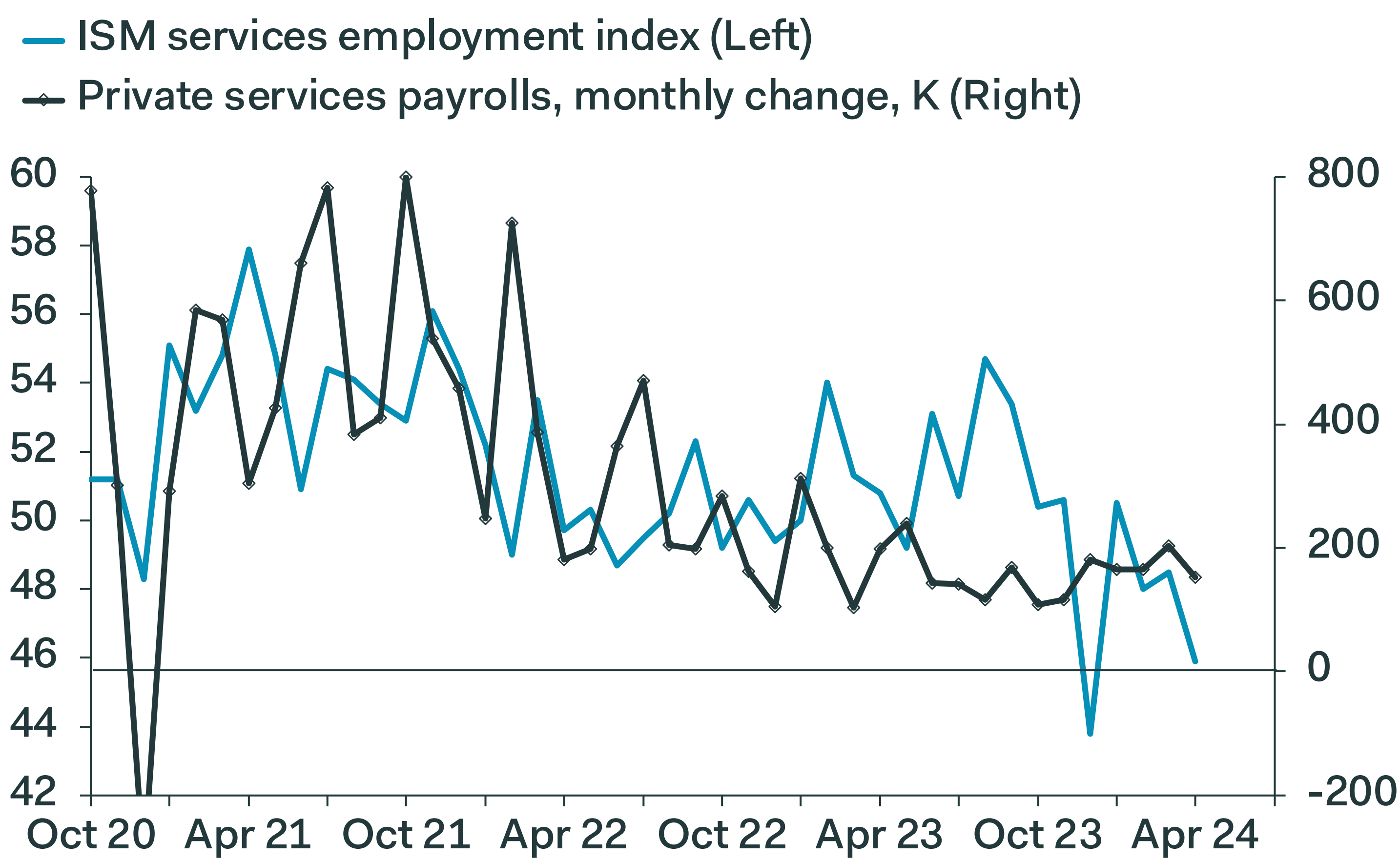
- The ISM services index dropped to 49.4 in April from 51.4, below the consensus, 52.0.

The drop in the ISM services index is disappointing given the improvement in most of the regional Fed services surveys last month, and takes the headline to its lowest level since the end of 2022. Before sounding the alarm, however, remember that the headline index has been an unreliable guide to actual growth in services activity over the past year or so, completely failing to flag the acceleration in consumers' spending on services since 2023. We expect a meaningful slowdown in services growth from here, but a crash to recessionary levels seems unlikely, at least in the near term.

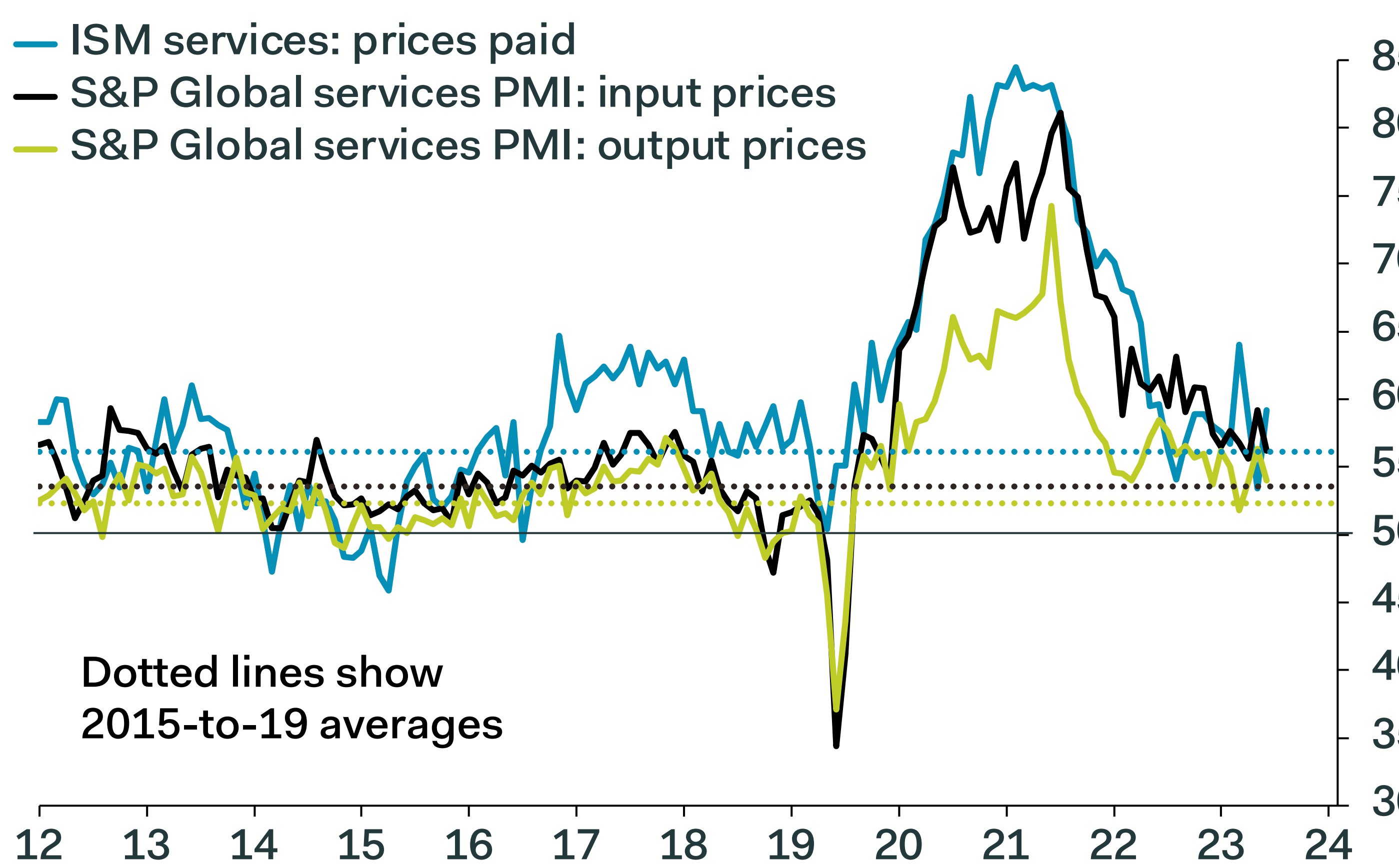
Most of the decline in the headline index was due to a plunge in the business activity index to 50.9 - its lowest level since May 2020 - from 57.4 Sharp single-month moves in the business activity index have often reversed without ever hitting the hard data in the past, however, and the relationship between this index and services activity is also pretty tenuous. The employment index also dropped, to 45.9 from 48.5, consistent with growth in private services payrolls more or less grinding to a halt. But the index is volatile and has been a poor indicator of payrolls growth over the past year or two. That said, right now its decline mirrors the fall in the same component of the S&P Global US services PMI, and the picture of weaker employment growth painted by the hiring intentions index of the NFIB survey. The new orders index, meanwhile, also slipped, but remains above the 50 mark, while the supplier delivery times index jumped by 3.5 points, but it remains comfortably below 50, suggesting that supply chain pressures remain limited.

The combination of the drop in the headline index and the 5.8-point jump in the prices index, to 59.2 from 53.4, will lead to some shouts about “stagflation”. But the jump in the prices index mostly reversed a similar fall in March, and still leaves the index at a level consistent with much weaker underlying services inflation. With the labor market softening and indicators of wage growth still firmly pointing lower, we think that the risk of a renewed acceleration in core services inflation is very low, with the disappointing numbers in Q1 likely to prove a blip. As a sense check, both the input and output prices balances of the S&P Global US services PMI dipped last month too, and are also both only a touch above their pre-COVID averages.


ISM services index (Left)
Real consumption spending on services, 3m/3m%, ann'd (Right)
Covid extremes cut from chart
70
68
66
64
62
60
58
56
54
52
50
48
14
12
10
8
6
4
2
0
-2
-4
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24


ISM services employment index (Left)
Private services payrolls, monthly change, K (Right)
60
58
56
54
52
50
48
46
44
42
800
600
400
200
0
-200
Oct 20
Apr 21
Oct 21
Apr 22
Oct 22
Apr 23
Oct 23
Apr 24


ISM services prices paid index, advanced two months (Left)
Core PCE services deflator ex-housing, y/y% (Right)
90
80
70
60
50
40
30
6
5
4
3
2
1
0
-1
05
07
09
11
13
15
17
19
21
23


ISM services: prices paid
S&P Global services PMI: input prices
S&P Global services PMI: output prices
Dotted lines show
2015-to-19 averages
85
80
75
70
65
60
55
50
45
40
35
30
12
13
14
15
16
17
18
19
20
21
22
23
24