

Datanote: US ISM Services Survey, June

In one line: Ugly activity and employment numbers, further signs of disinflation

- The ISM services index plunged to 48.8 in June, from 53.8, well below the consensus, 52.7.

The extent of the decline in the ISM services index is a big surprise given that the S&P Global PMI ticked up

further in June. After surging to a nine-month high in May, the slump in the ISM index takes it to its lowest level since the Covid shutdown in May 2020. Admittedly, the headline index has been a poor guide to actual growth in consumers' spending on services over the past couple of years. Still, this report will lend support to the idea that growth is coming off the boil.

Most of the drop in the headline was due to an 11.6 point plunge in the business activity index, to 49.6, also

its lowest level since Q2 2020 and the biggest monthly decline since then too. This plunge more than reverses a 10.3-point surge in May. Looking beyond the short-term volatility in the business activity index, the other three components of the headline index also dipped. New orders were notably weak, slipping to 47.3, from 54.1. Given the month-to-month noise in the ISM survey, a small bounce in July seems likely.

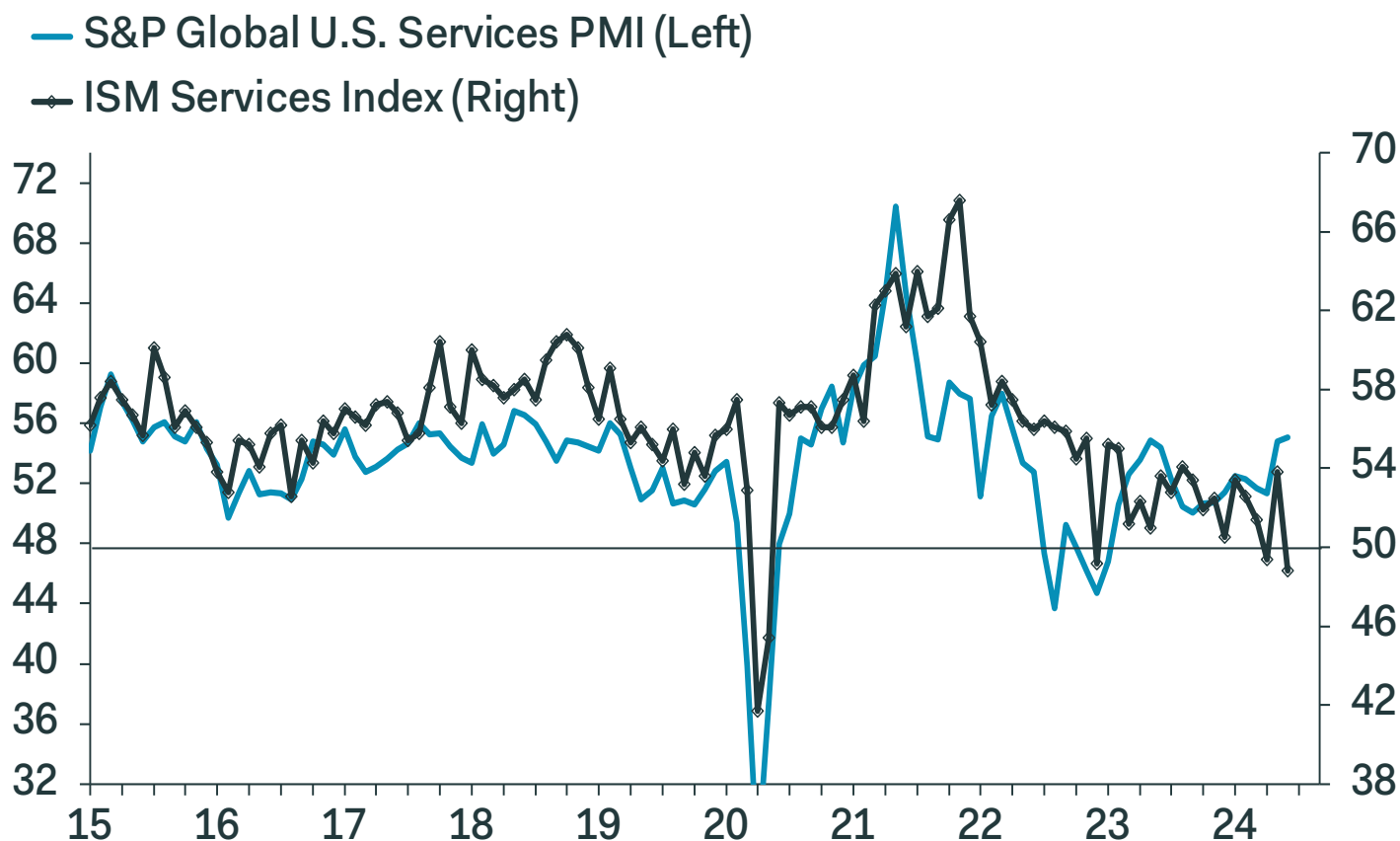
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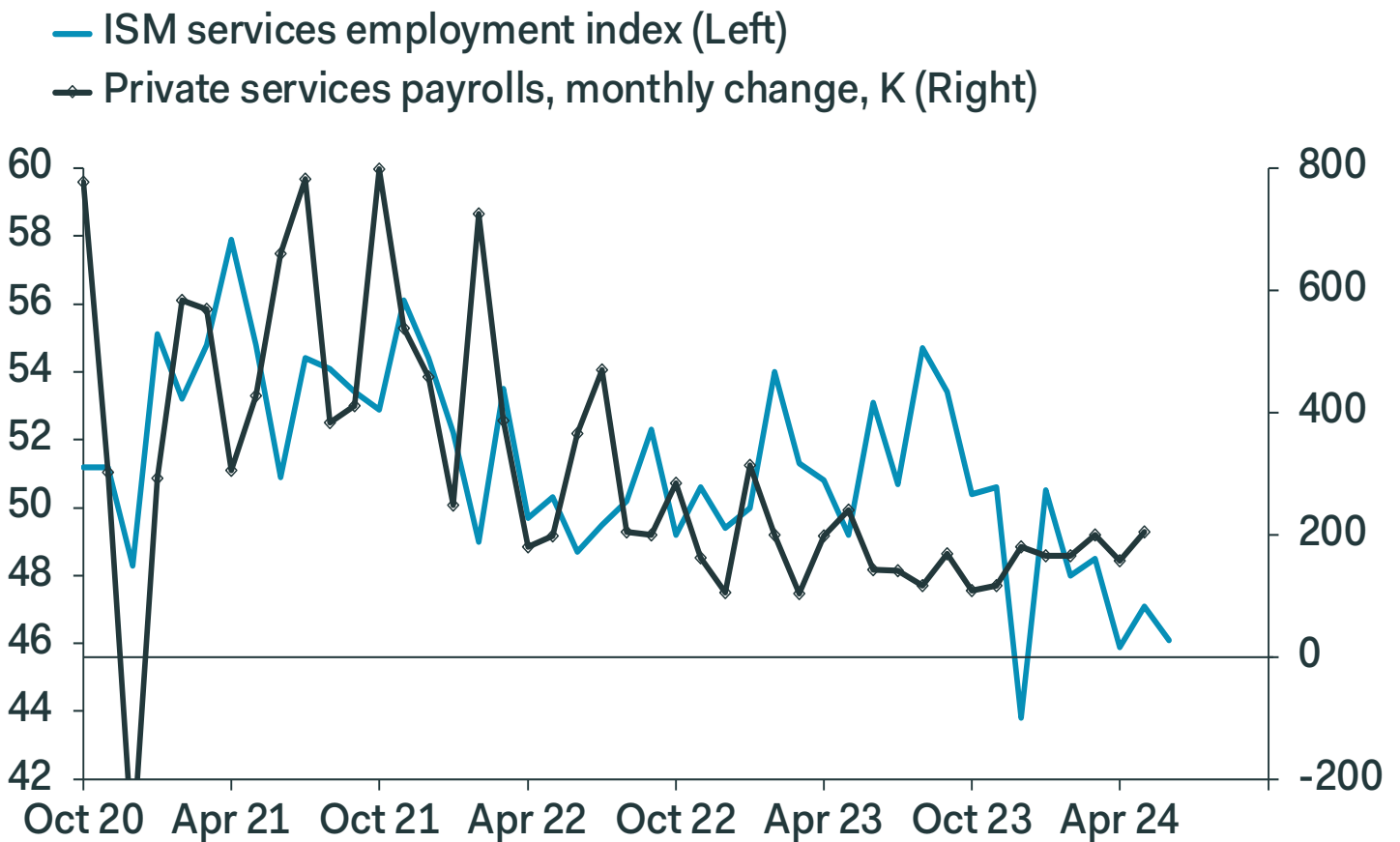
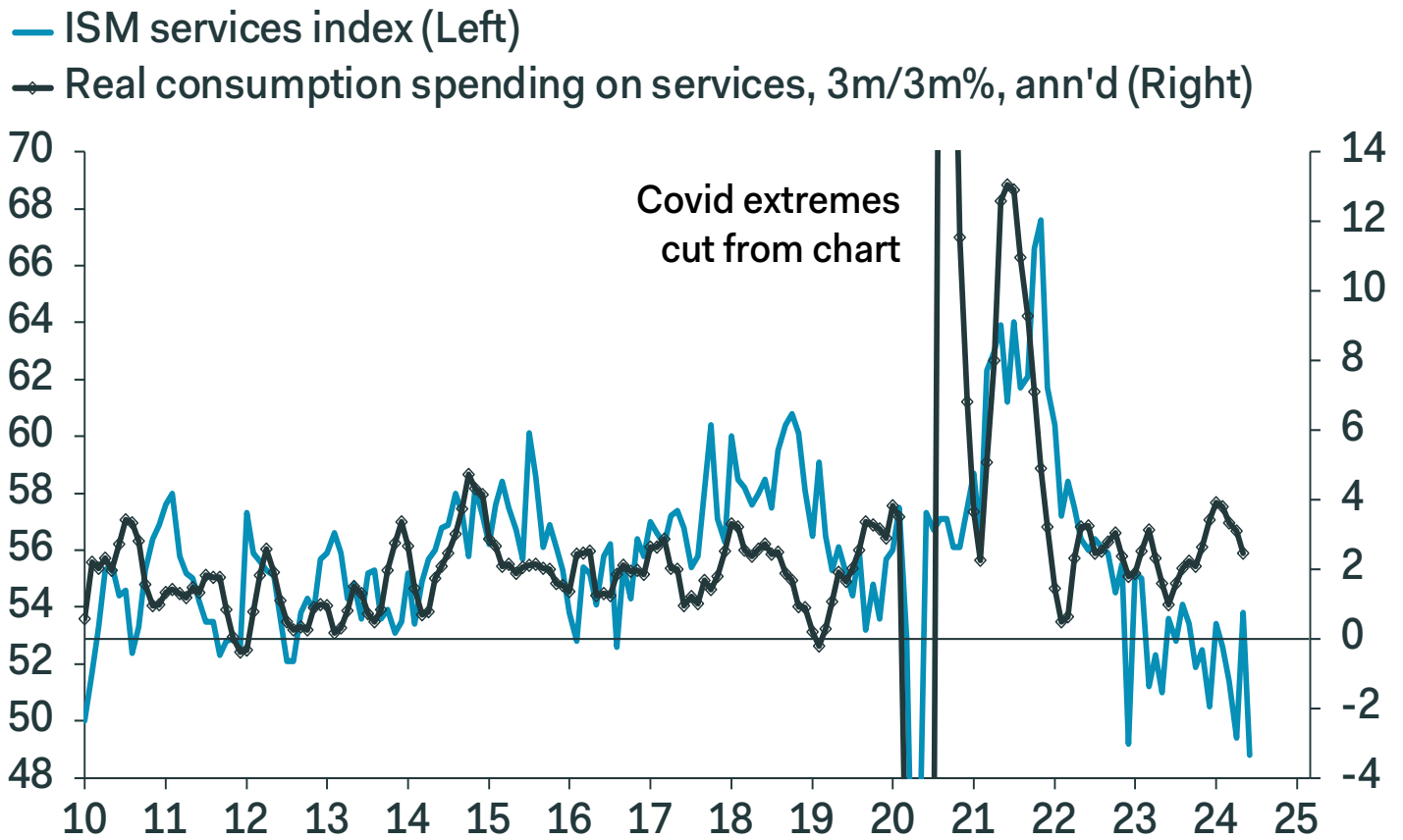
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The survey's employment index slipped by less than most of the other components, by just one point, but it is very depressed, at just 46.1. This is in stark contrast to the further increase in the employment component of the S&P Global services PMI in June, and provides a bit more support for our

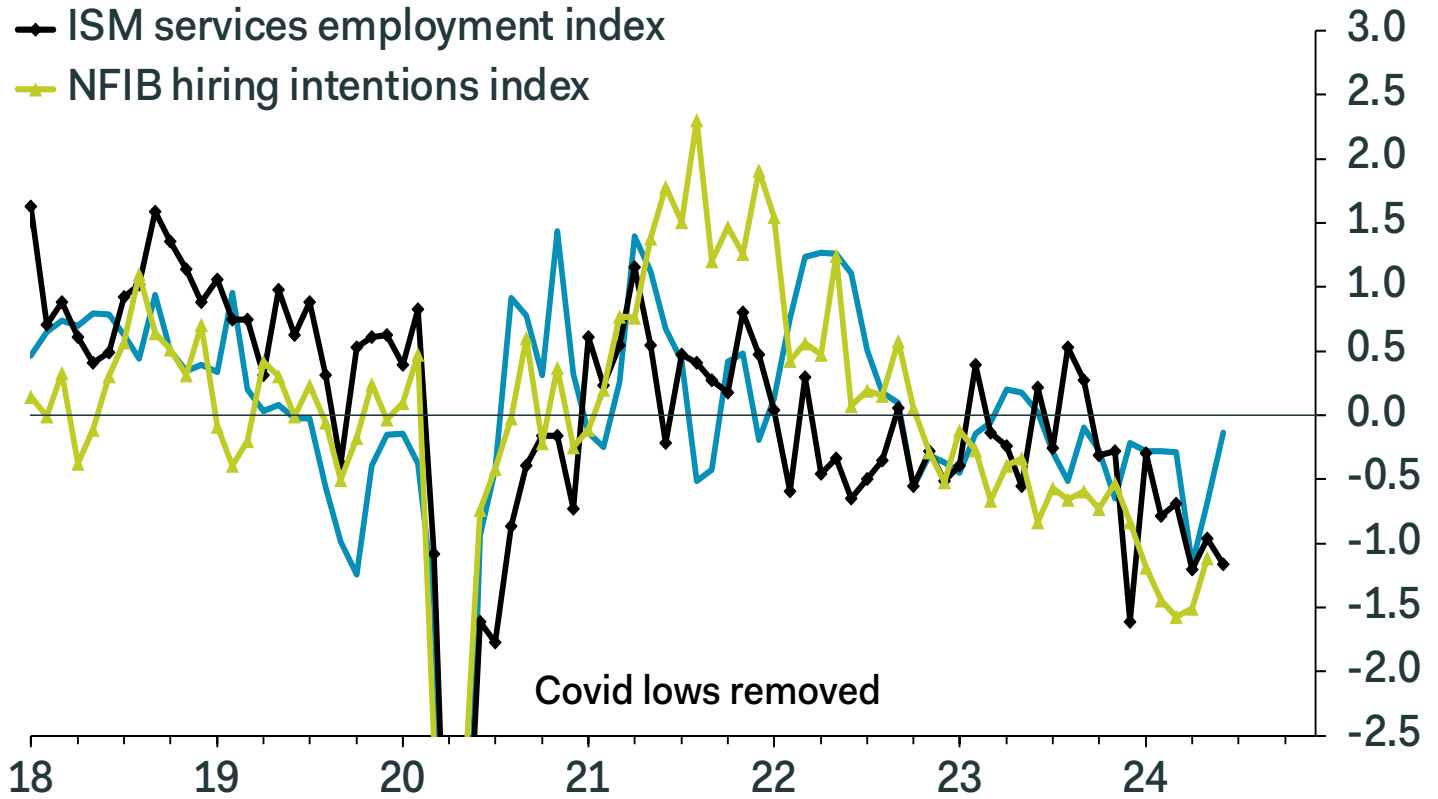
forecast that growth in private payrolls slipped to 125K last month. We remain of the view that high rates, slower consumer demand and pressure on margins is prompting companies to cut back on hiring, a trend we expect to show up more clearly in the hard data soon. We're expecting the June NFIB hiring intentions number later today to provide a bit more support for that view. Finally, the further decline in the prices index, to 56.3 from 58.1, is encouraging; this index has been a relatively good guide to underlying

services inflation in the past. Given trends in the labor market and wage growth we expect a rapid normalization of core services inflation over the next couple of quarters.





- S&P Composite PMI employment index, standardized since 2018
- ISM services employment index
- NFIB hiring intentions index



- ISM services prices index, standardized, adv. 5m (Left)
- Market-based core PCE services ex-housing, y/y% (Right)

