

## **Datanote: ISM Services Survey, February**

### **In one line: The signs still point to weaker services inflation**

- The February ISM services index dropped to 52.6, from 53.4, a bit below the consensus, 53.0.

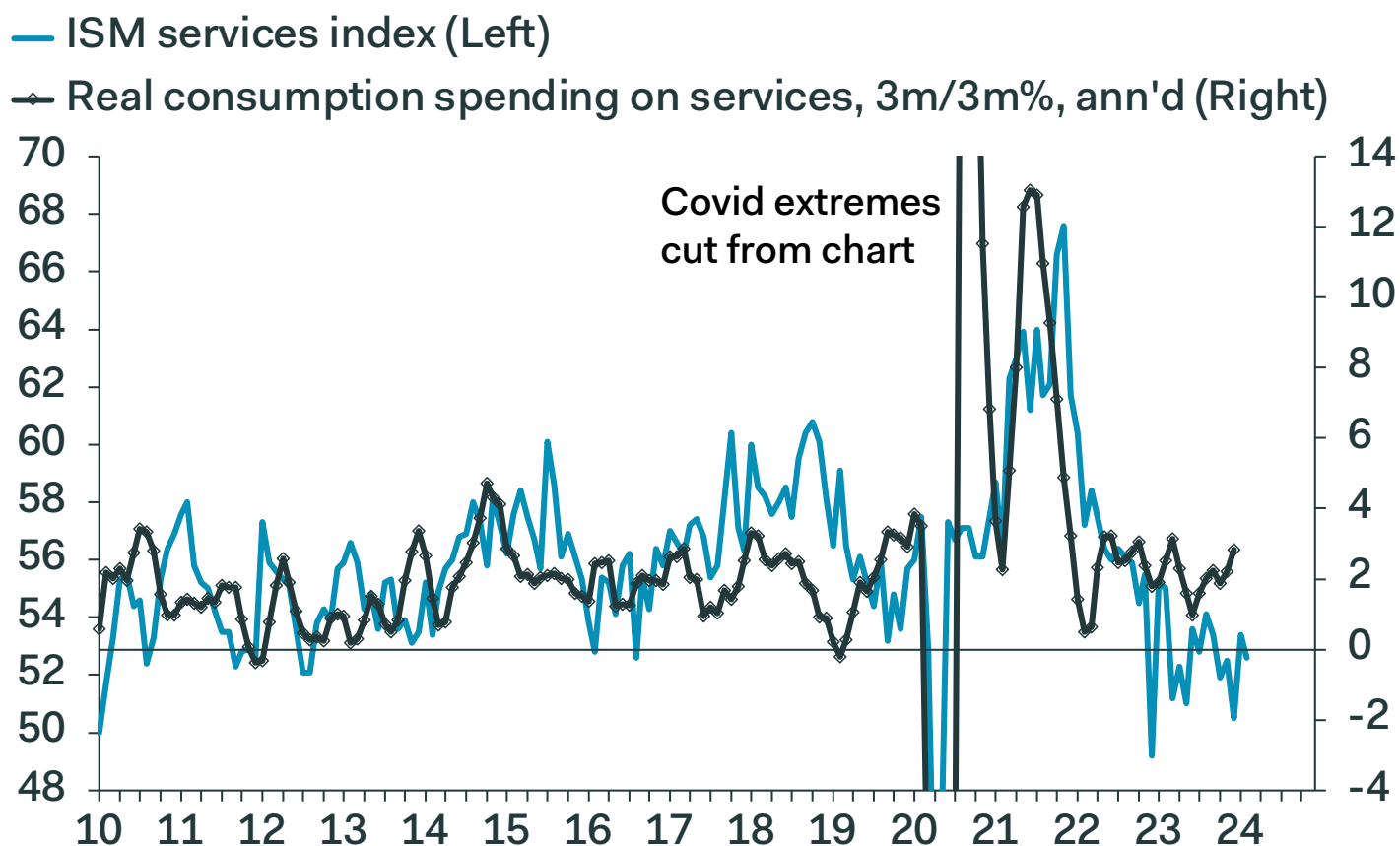
The fall in the index in February reverses only part of January's jump, and the leaves the headline drifting in a fairly tight range with no obvious

trend. In any event, the index has been a poor guide to growth in consumers' spending on services over the past year or so. We expect a gradual slowdown in services sector activity over the coming quarters as the Fed's rate hikes start to weigh more heavily, particularly now that the excess savings built up by consumers during the pandemic have mostly been spent. February's dip provides some marginal support for that view, but nothing definitive yet.

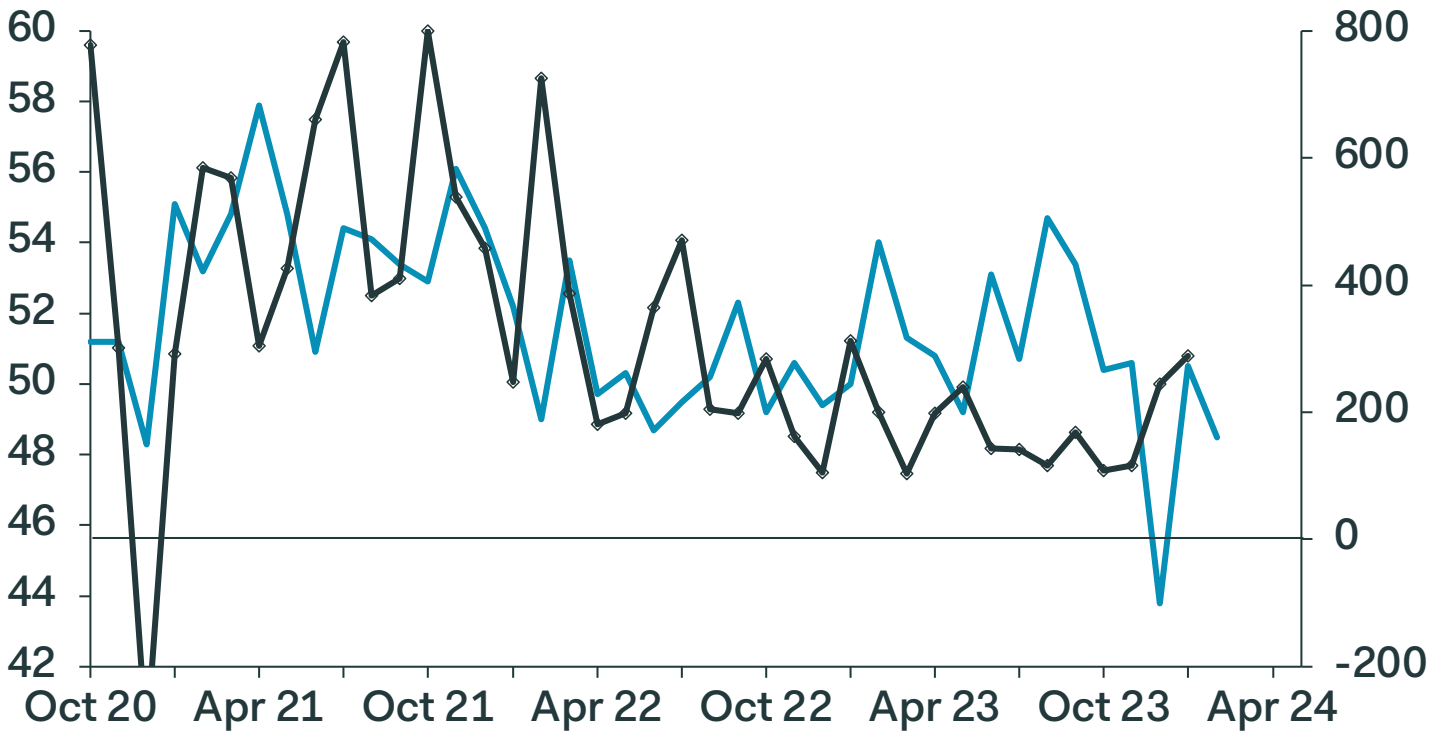
Some of the details of the survey were more positive than the headline; the business activity index rose to 57.2, from 55.8, while the new orders index edged up to 56.1, from 55.0. But the employment index dropped by 2.5 points, and appears to be trending down, though it is volatile and a poor guide to growth in private services payrolls month-to-month. Still, the recent softening is consistent with the drop in the NFIB survey's measure of hiring intentions among small firms.

January's eye-popping surge in the prices paid index has proven to be a false alarm, as we expected, reversing almost entirely with a drop back to 58.6 in February, from 64.0. The decline is welcome, given the leading relationship between the index and underlying services inflation shown in our third chart, though the prices paid index is much more volatile than services inflation. Other indicators, including the continued decline in the input prices balance of the S&P Global US Services PMI, and slowing

wage growth, all point to a renewed slowdown in underlying services inflation in the months ahead.



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



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



