US Economy Remains At Your Service

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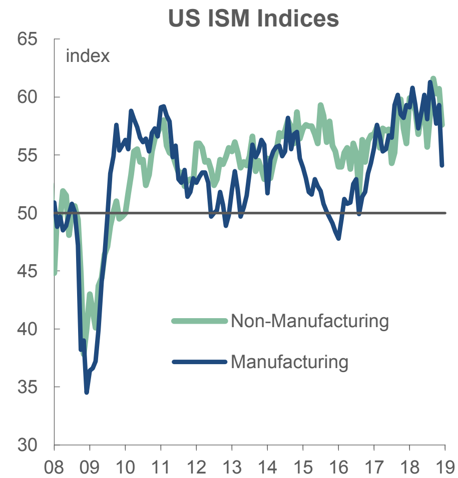
ISM non-manufacturing, index, December:
Actual: 57.6
Scotia: 59.9
Consensus: 58.5
Prior: 60.7 (unrevised)

- The US services sector continues to grow at an impressive pace and that bodes well for the outlook given the 77% weighting on the services sector in broad GDP. While the headline ISM-reading softened somewhat more than expected, the underlying details are generally sound. Stocks are mildly pushing higher and the U S10 year Treasury yield is also higher by about 2bps following the release.
- **Most of the decline in the headline reading was due to softer prices paid (57.6, 64.3 prior), softer inventory accumulation (51.5, 57.5 prior), more rapid supplier deliveries (51.5, 56.5 prior) and a cooling order backlog (50.5, 55.5 prior).** None of those reasons are especially bad ones. Cooler price increases are not a surprise given cooling commodity prices including energy. Cooler inventory gains might reflect faster turnaround of supplier deliveries. The lower supplier deliveries component reflects that deliveries are still slowing (above a 50 reading) but at a slower rate as respondents indicated drivers to be that a “season peak [is] subsiding”, “vendors are beginning to work down the backlog” and due to an “increase in available truck capacity.”
- **The new order book, however, continues to rise at a rapid and essentially unchanged pace.** At 62.7, the new orders subcomponent is running at a six month high. That lies in direct contrast to the ISM-manufacturing report where the new order book slowed sharply via an eleven point deceleration to 51.1.
- **Employment growth eased (56.3, 58.4 prior) but still signals decent employment gains.** Besides, it's a tenuous connection between actual hiring activity and what purchasing managers' indicate in what amounts to a sentiment survey across 300 survey respondents.
- There is strong breadth to overall growth as 89% of industries registered growth.



Sources: Scotiabank Economics, ISM.