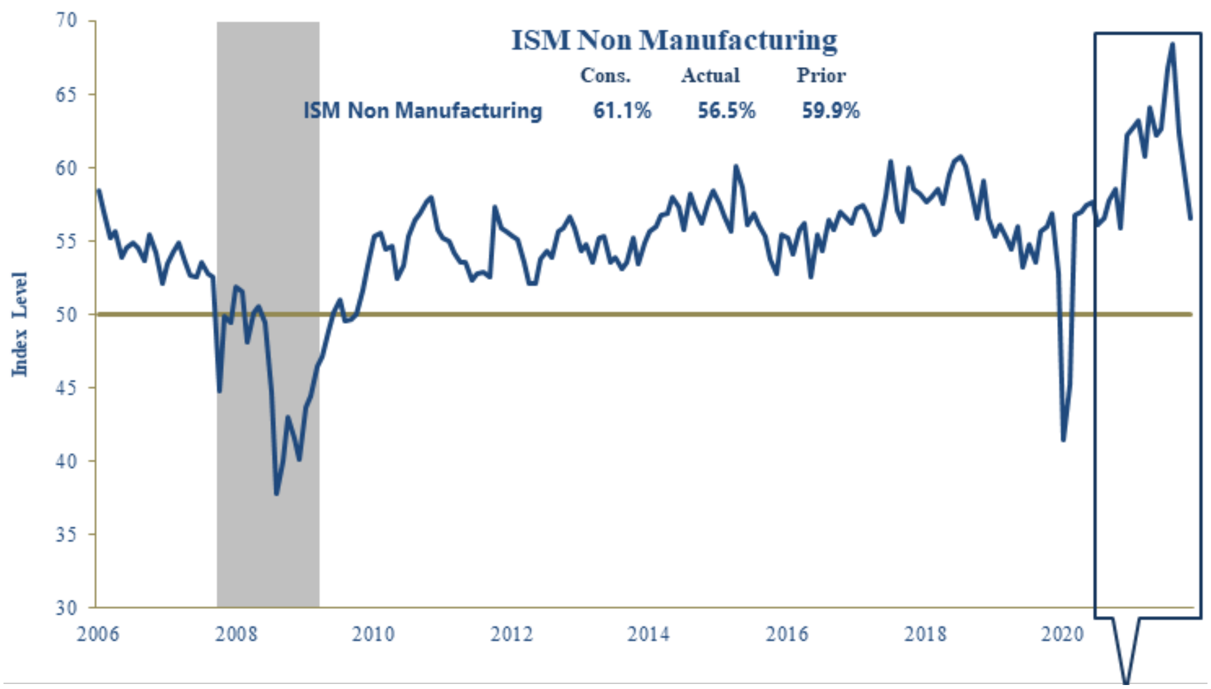
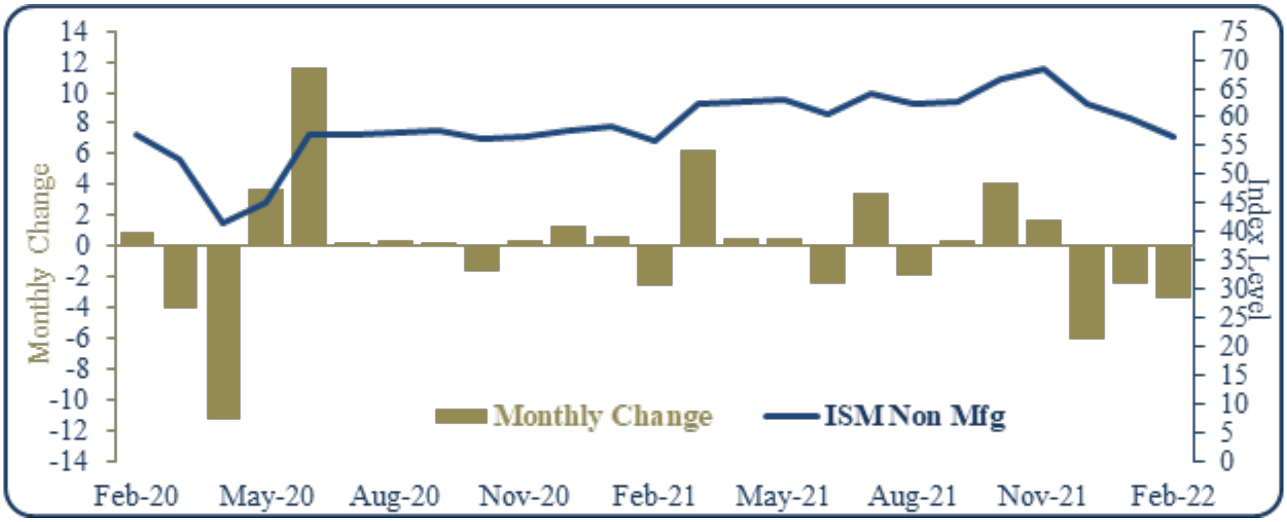
03.Mar.2022

ISM Non-Manufacturing: Deceleration

Bottom Line: Activity in the service industry decelerated for the third month in a row in February. The services industry struggled with goods shortages and difficulty attracting labor. New order growth slowed but order backlogs rose sharply. Employment declined for only the third month since the pandemic. That's a negative sign for the February payroll report due tomorrow, even in light of the stronger ADP data. Overall, services sectors continued to see growth but suffered significant impediments to delivering those services, including surprise input price hikes, labor shortages, and higher wages. Anecdotal reports suggested a hint of demand destruction amid higher prices.





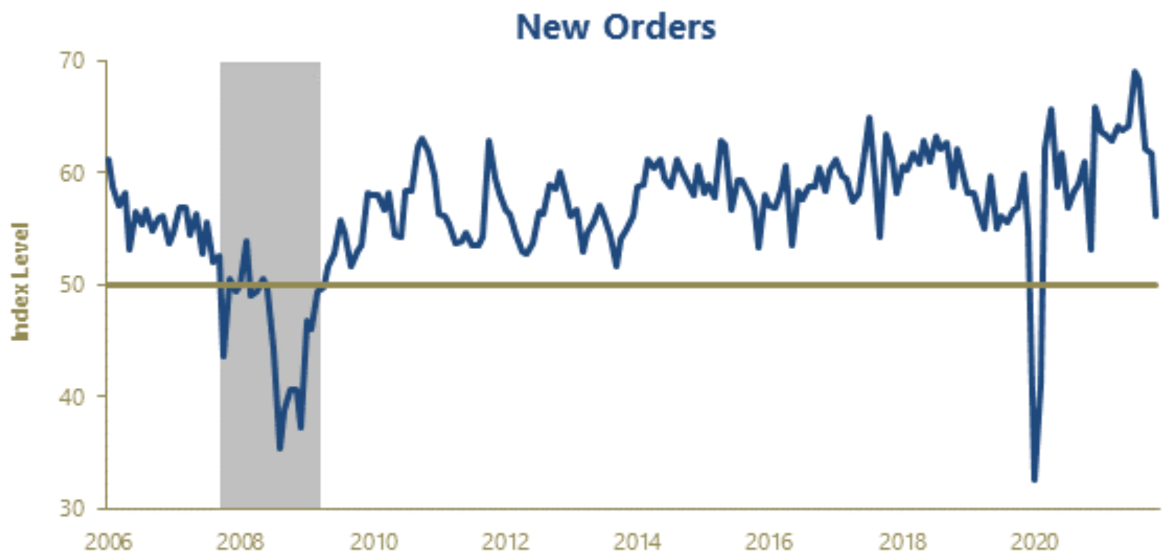
The ISM Non-Manufacturing Index FELL by 3.4 points in February to 56.5%, compared with market expectations for an increase to 61.1%. The February reading was modestly lower than its average level over the past 12 months. That said, the current level of the index still indicates that the economy is growing moderately.

- New Orders fell by -5.6 points to 56.1%.
- Order Backlogs increased moderately and Inventories increased slightly.
- Employment fell by 3.8 points to 48.5%, indicating that the upcoming employment report will likely be lower than last month's print.
- Prices increased by 0.8 points to 83.1%.

Quotes from the Survey:

- "Raw material increases, labor shortages, wage increases and transportation issues are still the primary issues affecting our operations and pricing." [Accommodation & Food Services]
- "Supply chain challenges continue to result in lower inventories of products and higher costs. The challenges are at the highest point since COVID-19 began." [Agriculture, Forestry, Fishing & Hunting]
- "We are projecting 2022 to be busier than 2021. Our business volume should begin to increase significantly in March." [Arts, Entertainment & Recreation]
- "We are getting price increases with no notice. For example, our engineered wood products supplier gave us a 10 percent to 20 percent (based on SKU) increase, effective immediately. We are also struggling to get materials. Suppliers cite poor employee attendance, elevated employee turnover and positions open longer than normal as they struggle to fill them." [Construction]
- "Inflation is contributing to budget constraints, supply chain restraints and labor shortages." [Educational Services]
- "Employee turnover within our company and with our suppliers is causing delays in decisions and orders." [Finance & Insurance]

- “As the COVID-19 surge starts to loosen its grip, we are planning to resume elective surgeries soon. Demand is still high, as these procedures were delayed while the surge was occurring.” [Health Care & Social Assistance]
- “Business has flattened but holding steady.” [Information]
- “Staffing shortages, supply chain disruptions and rising inflation continue to impact the world economy. Companies are struggling to hire direct employees and non-employee labor because wages continue to increase for both. The Great Resignation is real: Employees, contractors and consultants continue to quit their jobs and engagements for opportunities that pay more and have more flexible work options. Millions of light industrial jobs remain open in the U.S., with limited interest from job seekers. Severe labor shortages are expected well into 2022. Corporations need to increase wages and salaries to attract talent and get work done. Faster wage growth is expected to lead to increased inflation.” [Professional, Scientific & Technical Services]
- “Appear to be on the upswing from COVID-19 from an absenteeism standpoint. Still dealing with long lead times for wire, polyvinyl chloride (PVC), steel, transformers and meters. Winter weather has not had an impact on productivity levels.” [Utilities]



	Percent										
	Monthly				Average for						
	Feb-22	Jan-22	Dec-21	Nov-21	Three Month	Six Month	Twelve Month	2021	2020	5-Years	10-Years
ISM Non-Manufacturing											
Business Activity, SA	**56.5**	**59.9**	**62.3**	**68.4**	**59.6**	**62.7**	**62.6**	**62.3**	**57.8**	**58.0**	**56.8**
New Orders, SA	**56.1**	61.7	62.1	68.3	60.0	63.6	63.7	62.1	58.9	58.9	58.2
Order Backlog	**64.2**	57.4	62.3	65.9	61.3	63.2	61.4	62.3	48.7	51.8	50.2
Employment, SA	**48.5**	52.3	54.7	57.0	51.8	53.2	53.8	54.7	48.6	54.3	54.2
Inventories	**50.8**	49.4	46.7	48.2	49.0	47.2	48.7	46.7	58.2	52.2	51.4
Inventory Sentiment	**55.3**	47.5	38.3	36.4	47.0	43.5	43.3	38.3	47.7	53.5	56.8
Prices	**83.1**	82.3	83.9	83.0	83.1	82.5	80.0	83.9	65.4	65.9	60.3
Supplier Deliveries	**66.2**	65.7	63.9	75.7	65.3	69.3	68.6	63.9	62.8	57.2	53.9
New Export Orders	**53.0**	45.9	61.5	57.9	53.5	56.7	57.6	61.5	57.3	57.2	54.7
Import Orders	**51.7**	51.1	55.5	50.5	52.8	51.6	52.1	55.5	51.8	52.3	51.0

Source: Institute of Supply Management via Bloomberg. Our calculations.