

05.Oct.2022

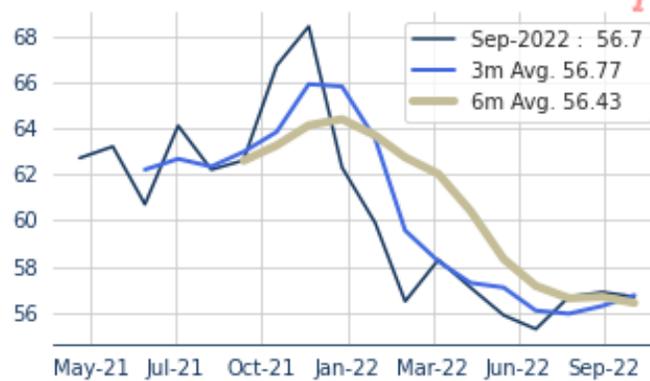
ISM Services: Solid Gains, Some Cracks Developing

Bottom Line: ISM's survey-based index of services sector purchasing managers held its gains in September, suggesting continued moderate growth in service industries, after hitting a two-year low in June. New order growth remained robust. That said, anecdotal reports were a bit more mixed than the index levels suggested. Several sectors reported slower sales due to inflation concerns. The employment index edged higher, suggesting service sector jobs in Friday's national payroll survey should show continued moderate to strong gains. But even on employment, several anecdotes suggested cracks developing -- a manager in the professional services sector, for instance, noted that companies were being cautious about direct hiring and were attempting to utilize contingent labor. **Overall, growth in the services sector remained moderate in September, notably stronger than the manufacturing sector but starting to show early signs of slowing growth.**

Services PMI September: +56.7, consensus: +56



monthly levels



Contingent Macro Advisors 2022 source: Inst. Supply Mgmt. via Bloomberg LP

ISM's **Services PMI** was nearly unchanged, DOWN 0.2 points to 56.7, BELOW the 3-Month average of 56.77, ABOVE the 6-Month average of 56.43 and 5.9 BELOW the year-ago level.

- New orders FELL 1.2 points to 60.6, BELOW the 3-Month average of 60.77, ABOVE the 6-Month average of 58.35, and 3.6 BELOW the year-ago level.
- Prices paid FELL 2.8 points to 68.7, BELOW the 3-Month average of 70.83, BELOW the 6-Month average of 76.55 and 10.8 BELOW the year-ago level.
- Employment ROSE 2.8 points to 53, ABOVE the 3-Month average of 50.77, ABOVE the 6-Month average of 49.9 but 1.1 BELOW the year-ago level.
- Supplier Deliveries FELL 0.6 points to 53.9, BELOW the 3-Month average of 55.4, BELOW the 6-Month average of 59.08 and 14.9 BELOW the year-ago level.

WHAT RESPONDENTS ARE SAYING

- “Sales at our restaurants seasonally trend down from August to October, and this year seems to be more severe compared to before the pandemic. General inflation concerns and consumer uncertainty are the likely causes, expressed by industry peers as well.” [Accommodation & Food Services]
- “General slowdown in sales. We believe high commodity prices and inflation have impacted consumers’ desire for fertilizer from our turf and ornamental division. Farmers have already cut back on consumption due to pricing and weather-related issues.” [Agriculture, Forestry, Fishing & Hunting]
- “September is one of our slowest months of the year. We are gearing up to have a very busy fourth quarter and are seeing some signs of relief in our supply chain.” [Arts, Entertainment & Recreation]
- “Sales have slowed significantly. Very challenging market. Trying to build through backlog. Manufacturers, distributors and installation trades are still busy and passing on price increases, while we are discounting homes to stimulate sales. Margins are compressing.” [Construction]
- “Due to supply chain issues and inflation, we continue to limit purchases and/or start orders sooner than normal. In the higher education sector, the outlook is good for larger schools.” [Educational Services]
- “Labor pressures continue to depress business activity, as insufficient staffing levels are not allowing the hospital system to operate at capacity. Back orders remain unchanged from a month ago as shortages of raw materials — especially surgical grade Tyvek (synthetic polyethylene fiber), foam and plastics — persist and do not appear to be improving. Logistical lead times have decreased, but the impact on supply chains is limited amid product shortages.” [Health Care & Social Assistance]
- “Hiring continues to be a challenge across most industry sectors. There are far more open roles than candidates to fill them. Due to inflationary concerns, companies are being cautious about hiring direct employees and are attempting to utilize contingent labor. The lack of candidates willing to fill temporary positions is making this strategy difficult to execute.” [Professional, Scientific & Technical Services]
- “Chip shortage shows no signs of abating.” [Retail Trade]
- “Prices of fuel are leveling off (or) dropping in small increments. Still facing supply/demand issues with certain products — food, beverages, some raw construction material and semiconductor chips. Big concern is (China’s) zero-tolerance policy for COVID-19 cases. A lot of companies rely on products from China, and cities keep shutting down due to the policy. This greatly affects the orders outstanding and creates lead time uncertainty.” [Transportation & Warehousing]
- “Business activity has improved over last month but is still trending flat to slightly down versus the same period last year. Inventory levels are starting to

fall from record highs, but overstocked items are still a problem. We expect lower demand and inventory rebalancing to impact business activity through the end of the calendar year.” [Wholesale Trade]

SOURCE: ISMWorld.org

New orders



monthly levels

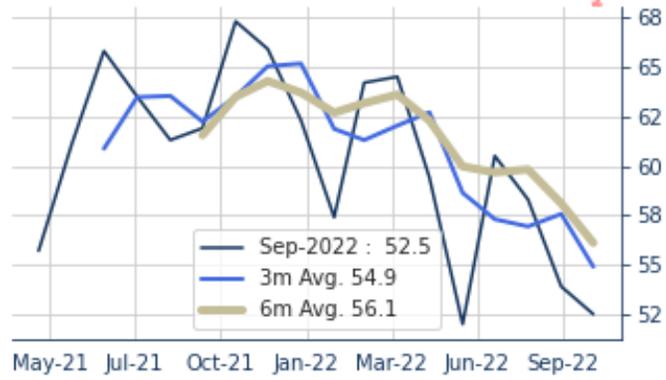


Contingent Macro Advisors 2022 source: Inst. Supply Mgmt. via Bloomberg LP

Back orders



monthly levels



Prices paid



monthly levels



Employment



monthly levels



Contingent Macro Advisors 2022 source: Inst. Supply Mgmt. via Bloomberg LP

| ISM Services Survey | Sep-22 | Aug-22 | Jul-22 | 3m. avg. | 6m. avg. | 12m. avg. | 2021 | 5y |
|---------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Services PMI | 56.7 | 56.9 | 56.7 | 56.8 | 56.4 | 59.2 | 62.5 | 57.7 |
| New orders | 60.6 | 61.8 | 59.9 | 60.8 | 58.4 | 60.6 | 63.4 | 59.4 |
| Back orders | 52.5 | 53.9 | 58.3 | 54.9 | 56.1 | 59.8 | 60.1 | 55.0 |
| Export orders | 65.1 | 61.9 | 59.5 | 62.2 | 60.5 | 58.7 | 58.1 | 55.8 |
| Inventory change | 44.1 | 46.2 | 45.0 | 45.1 | 47.7 | 47.9 | 49.3 | 51.1 |
| Inventory sentiment | 47.2 | 47.1 | 50.1 | 48.1 | 47.0 | 44.7 | 43.4 | 53.2 |
| Imports | 51.3 | 48.2 | 48.0 | 49.2 | 49.9 | 50.5 | 52.2 | 51.1 |
| Prices paid | 68.7 | 71.5 | 72.3 | 70.8 | 76.6 | 79.9 | 77.5 | 66.0 |
| Employment | 53.0 | 50.2 | 49.1 | 50.8 | 49.9 | 51.6 | 54.4 | 52.8 |
| Supplier Deliveries | 53.9 | 54.5 | 57.8 | 55.4 | 59.1 | 63.8 | 67.5 | 58.9 |

| | | | | | | | | |
|--------------------------|------|------|------|------|------|------|------|------|
| Services Employ % Higher | 23.7 | 20.4 | 24.2 | 22.8 | 23.2 | 23.9 | 23.9 | 22.3 |
| Services Employ % Lower | 17.9 | 22.4 | 24.1 | 21.5 | 21.6 | 20.9 | 15.3 | 16.7 |
| Services Employ % Same | 58.4 | 57.2 | 51.7 | 55.8 | 55.2 | 55.2 | 60.8 | 61.1 |

Source: Institute for Supply Management