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January ISM Non-Manufacturing Index

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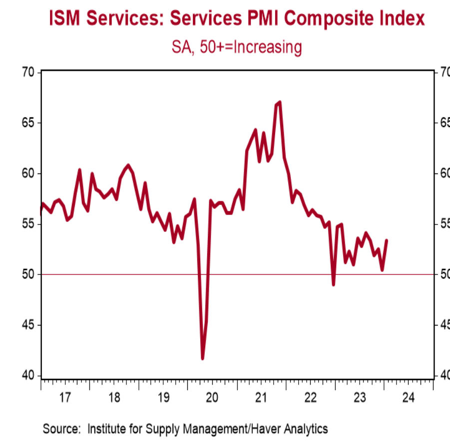
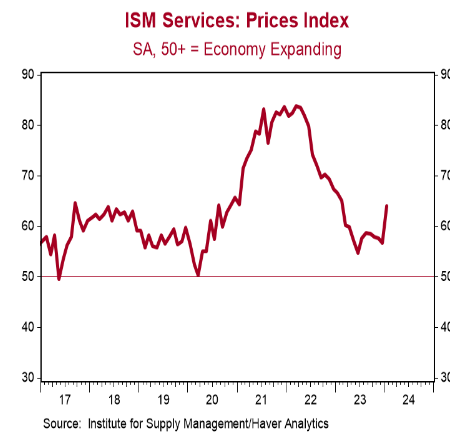
- The ISM Non-Manufacturing index rose to 53.4 in January, beating the consensus expected 52.0 (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity were mostly higher in January. The new orders index increased to 55.0 from 52.8, while the business activity index remained at 55.8. The employment index rose to 50.5 from 43.8, while the supplier deliveries index increased to 52.4 from 49.5.
- The prices paid index increased to 64.0 in January from 56.7 in December.





Implications: No sign of a recession yet in the service sector. Services activity continued expanding in January and the rate of growth accelerated. The headline index rose to 53.4 in January, beating even the most optimistic forecast from any economics group on Bloomberg. The increase in the overall rate of growth is partially attributable to faster growth in new orders, with that index rising to a solid 55.0. Meanwhile, the business activity index remained at 55.8. Movement in the employment index was also responsible for the overall increase, where hiring activity managed to eke out a small gain after contracting sharply in December. Employment comments continue to signal that a lack of supply, not demand, has been the problem for hiring in the service sector, as companies deal with a highly competitive market due to increasing wages and turnover. Meanwhile, the index for supplier deliveries broke back into expansion territory in January (signaling longer delivery times) after remaining in contraction territory each of the three months prior. Survey comments reveal the increase likely has to do with conflict in the Red Sea as transportation impacts are felt through the Suez Canal. This can also be seen in the prices index, which rose to an elevated 64.0 in January. Although that is below the back-breaking pace from 2021-22 – make no mistake – prices are still rising, and inflation remains a problem in the service sector. When you contrast the details of today's report with the January ISM report on the manufacturing sector – where activity has contracted fifteen consecutive months and just four industries reported growth in January – there has clearly been a divergence in activity. The service sector was a lifeline for the US economy in 2023. What do we expect in the year ahead? An eventual weakening as the impact of the recent reductions in the M2 measure of the money supply make their way through the economy. We continue to believe a recession is on the way. Investors should remain vigilant as we navigate these unprecedented times.

Non-Manufacturing ISM Index *Seasonally Adjusted Unless Noted*	Jan-24	Dec-23	Nov-23	3-month *moving avg*	6-month *moving avg*	Year-ago *level*
Composite Index	**53.4**	50.5	52.5	52.1	52.6	54.7
Business Activity	**55.8**	55.8	54.9	55.5	56.0	59.2
New Orders	**55.0**	52.8	54.8	54.2	54.5	59.2
Employment	**50.5**	43.8	50.6	48.3	50.3	50.4
Supplier Deliveries (NSA)	**52.4**	49.5	49.6	50.5	49.7	50.0
Prices	**64.0**	56.7	57.6	59.4	58.9	66.7

Source: Institute for Supply Management