First Trust DATAWATCH

January 7, 2025 • 630.517.7756 • www.ftportfolios.com

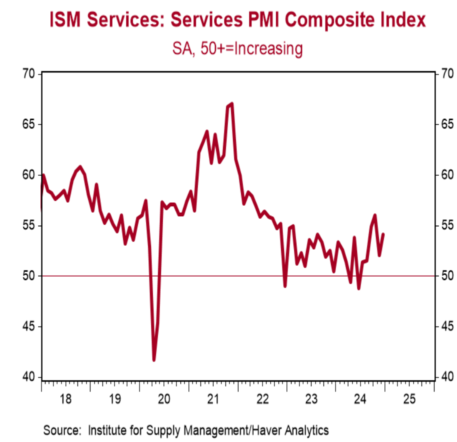
December ISM Non-Manufacturing Index

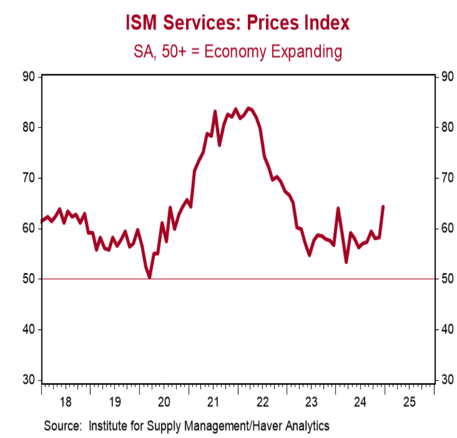
Nate Gerze, CFA – Economic Analyst
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Dep. Chief Economist

- The ISM Non-Manufacturing index increased to 54.1 in December, beating the consensus expected 53.5. (Levels above 50 signal expansion; levels below signal contraction.)

- The major measures of activity were mostly higher in December. The business activity index jumped to 58.2 from 53.7 and the new orders index rose to 54.2 from 53.7. The supplier deliveries index increased to 52.5 from 49.5 but the employment index ticked down to 51.4 from 51.5.

- The prices paid index jumped to 64.4 in December from 58.2 in November.





Implications: After a shaky first half the ISM Services Index closed the year on a solid note by beating consensus expectations and rising to 54.1 in December. The continued resilience in the service sector represents a stark contrast to the manufacturing sector which has been limping along the last two years. Looking at the details of the report, fourteen out of eighteen major service industries reported growth in the month while three reported contraction (Mining, Real Estate, and Educational Services). The rise in the overall index was driven by higher business activity and new orders, as both of these categories rose in December and sit firmly in expansion territory, at 58.2 and 54.2, respectively. The majority of survey comments impart a positive outlook for the year ahead, while some report they are holding off on capital projects until they have a better idea of future policy from the incoming Trump administration. Meanwhile, hiring in the service sector appears balanced, with the employment index little changed at 51.4, and an equal number of industries (five) reporting an increase versus a decrease in employment for the month. Finally, and perhaps most important, inflation remains a major problem. The highest reading for any major category was once again the prices index, which rose to 64.4 – the highest level since early 2023. Survey comments continue to voice concern over potential tariffs and uncertainty with how that will impact future pricing. But it's important to remember inflation was already a problem before any new tariffs; case in point, fourteen major industries reported paying higher prices in December while just one reported paying lower (Agriculture, Forestry, Fishing & Hunting). And while monetary policy is tight (the M2 measure of the money supply is down 1.3% from its peak in early 2022), it is less tight than it was before the Federal Reserve began cutting rates in September. We believe there are serious risks that an overly aggressive path of cuts and/or the Treasury dipping into the Treasury General Account in response to the debt ceiling (more here) could bring with them a pickup in the M2 measure of money, and with it a return of higher inflation. As for the economy, the service sector continues to be a lifeline for growth.

Non-Manufacturing ISM Index *Seasonally Adjusted Unless Noted*	Dec-24	Nov-24	Oct-24	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	**54.1**	52.1	56.0	54.1	53.3	50.5
Business Activity	**58.2**	53.7	57.2	56.4	56.1	55.8
New Orders	**54.2**	53.7	57.4	55.1	55.0	52.8
Employment	**51.4**	51.5	53.0	52.0	50.9	43.8
Supplier Deliveries (NSA)	**52.5**	49.5	56.4	52.8	51.3	49.5
Prices	**64.4**	58.2	58.1	60.2	59.1	56.7

Source: Institute for Supply Management

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security