Economics

Economic Indicator — July 6, 2021

ISM Services: Off the Boil But Still Hot

Summary

The pullback in the June ISM Services index from its record high last month is illustrative of the fiscal and reopening tailwinds beginning to fade. Bottlenecks show tentative signs of easing and eventually allaying some price pressures, but have a long way to go before looking anything like "normal".

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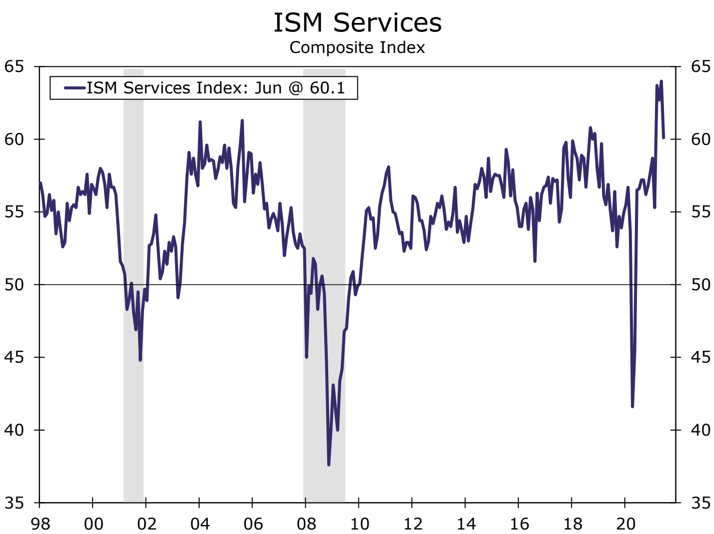
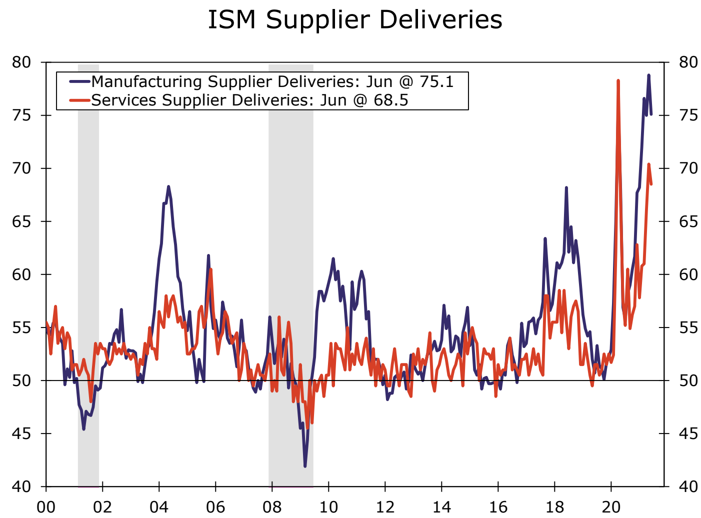


Source: Institute for Supply Management and Wells Fargo Securities

Supply-Constrained ISM Still Points to Hot Activity this Summer

After indicating a record pace of expansion last month, the ISM Services index slipped nearly four points in June. At 60.1, the index is consistent with activity remaining hot this summer, but points to fiscal and reopening tailwinds beginning to ease. The slower pace of services activity in June can be traced in part to weaker growth in current activity (down 5.8 points to 60.4) and new orders (down 1.8 points to 62.1), but supply issues, particularly for labor, continued to restrain the overall pace of growth.

For months, we have emphasized that supply-chain bottlenecks are more than just an issue for manufacturers. Activity in the construction industry, included among the ISM's "services" survey, has been hampered by long waits for supplies, while transportation services firms have been stretched to the brink. Like the manufacturing industry, there are nascent signs that bottlenecks may be coming to a head and are starting what we expect to be a long process of normalizing. The supplier delivery index retreated nearly two points, but at 68.5 remains near record highs and is consistent with deliveries continuing to take longer.

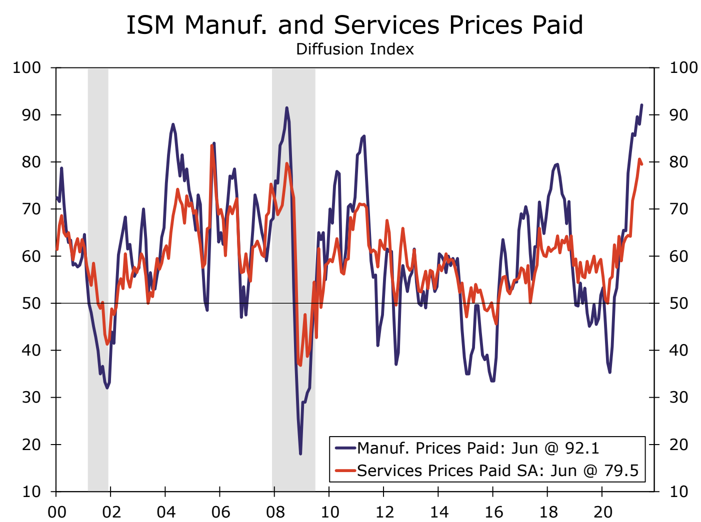


Source: Institute for Supply Management and Wells Fargo Securities

Prospective Employees Explore Options and Costs Are Rising

The biggest drag on the June's composite reading came from employment. The hiring index fell below the all-important 50 threshold designating expansion, in contrast with the solid pickup in services employment (+642K net jobs) reported in last week's employment report for June. The 6.0 point decline to 49.3 in the employment component marks the largest decline in the index since the lockdowns were in full-swing and when hiring plummeted by over 20 million in April of last year. The decline in hiring continues to be due to a lack of qualified supply and frictions working themselves out as demand for hiring has come roaring back and workers explore their options. One respondent summed the current labor situation up well by saying, "Employees have been somewhat slow to return to work, and there has been turnover as some pursue new opportunities in a hot job market."

Tight supply continues to give way to increasing input costs for parts, materials and labor. Although the prices paid component slipped 1.1 points to 79.5, June marks the fifth consecutive month in which the index came in north of 70 and the second highest reading since 2008. All but one industry -agriculture - reported higher prices paid during the month. A respondent from the mining industry noted "starting to see a lot of commodity-price increases," while a transportation & warehousing purchasing manager noted "wages have risen at an unprecedented rate...We are expecting a long-term effect on pricing of services." In other words, inflation pressures are set to remain elevated.



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