

U.S. Institute for Supply Management Nonmanufacturing Index (Jan.) **US Nonmanufacturers Shut Down Again**

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Unlike its manufacturing cousin, the **U.S. nonmanufacturing ISM** surprised to the downside in January. This isn't too surprising given the government shutdown which finally came to an end on the 25nd, as well as the powerful winter storm that hit the Central and Eastern USA mid-month. And, of course, the uncertainty around trade and tariffs weighed.



The nonmanufacturing ISM fell for the second month in a row in January, down 1.3 pts to 56.7, the lowest reading since July 2018 but still in-line with decent economic growth. (In general, a reading over 48.7, 'over a period of time', indicates that the broader economy is still expanding.)

The four main components, weighing in at 25% each, were mixed, but the two key ones took a hit in January

- 1) **Business activity** -1.5 pts to 59.7 (lowest since July 2018)
- 2) **New orders** -5.0 pts to 57.7 (lowest since August 2017)
- 3) **Employment** +1.2 pts to a 2-month high of 57.9 (confirms the solid January jobs report)
- 4) **Supplier delivery delays** unch'ed

Of the 18 industries that are surveyed, only 11 reported growth, which is down from the 16 in December and the fewest since August 2016. The comments are always a worthy read (particularly these days, with a lot of data releases still missing in action) and provide a good idea of how purchasing managers are seeing things play out. In short, the shutdown's impact was notable.

• "Business has slowed well below expectations as our customers deal with the effects of economic situations exacerbated by the government shutdown."

(Construction)

• "The government shutdown is not affecting our business at this time." (Finance & Insurance)

• "Prices are volatile due to tariff restrictions." (Management of Companies & Support Services)

• "We are trying to hold out through the government shutdown. Currently, our work is continuing with already obligated prior-year funds. We have not had to suspend any activities. The shutdown is affecting the United States Agency for International Development's [USAID] and the Department of State's ability to process actions, share information or plan for the future. That is the

ISM Nonmanufacturing Index

United States (percent reporting)

	Jan	Dec	Nov	18Q4	18Q3	Jan 18
Nonmanufacturing ISM	56.7	58.0	60.4	59.5	58.8	59.4
Business Activity	59.7	61.2	64.3	62.7	61.0	60.1
Employment	57.8	56.6	58.0	57.6	57.9	60.5
New Orders	57.7	62.7	62.7	62.4	60.7	61.5
Prices Paid	59.4	58.0	64.3	61.2	63.0	62.0
Backlog of Orders (n.s.a.)	52.5	50.5	55.5	53.2	55.5	50.5
Supplier Deliveries (n.s.a.)	51.5	51.5	56.5	55.2	55.3	55.5
New Export Orders (n.s.a.)	50.5	59.5	57.5	59.3	59.8	58.0

shutdown's effect on us. The longer it lasts, the greater the disruption." (Professional, Scientific & Technical Services)

- *"Apprehension regarding overall economic conditions due to uncertainty of the partial government shutdown, its effect on business climate and lack of national strategic direction. Economic activity remains strong locally; however, there is concern that this may change quickly due to uncertainty and reports of slowing economic indicators."* (Public Administration)

- *"Order input stable, and supplier deliveries growing. The industry is struggling with capacity constraints."* (Real Estate, Rental & Leasing)

- *"Things are steady. We're trying to mitigate any impact of the tariffs."* (Retail Trade)

- *"The shutdown and potential delay in tax refunds will hurt our business."* (Wholesale Trade)

- *"Central processing unit (CPU) shortages continue to impact fulfillment of orders."* (Transportation & Warehousing)

<https://www.instituteforsupplymanagement.org/ISMRreport/NonMfgROB.cfm?navItemNumber=31099&SSO=1>

The Bottom Line: This was clearly a disappointing nonmanufacturing reading, aggravated by a number of factors, one of which was temporary. We anticipate a retracement of this setback in February; however, that temporary factor may return to the fore....

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