U.S. Data Review

- ISM services: indicating expansion in late summer; prices elevated

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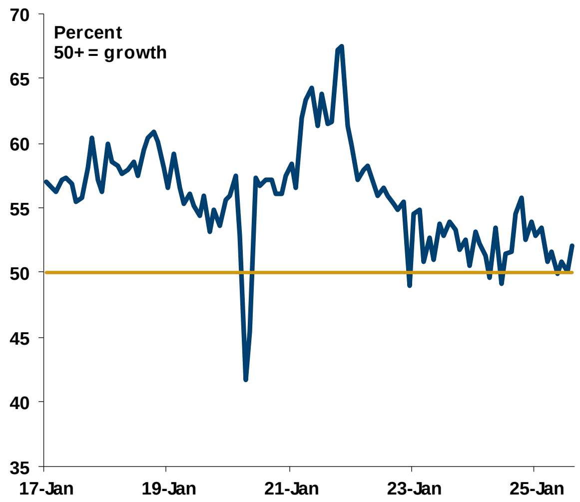
ISM Services Index

- The Institute for Supply Management's services index rose 1.9 percentage points to 52.0 percent in August, notably firmer than the Bloomberg economist survey expectation of a 0.9 percentage point uptick to 51.0 percent. The latest move left this metric above 50.0 percent, the critical threshold that separates expansion from contraction, for the 13th time in the past 14 months, highlighting the service sector's resilience to ongoing policy uncertainty (chart, below left). However, there were some pockets of softness in the release, with Steve Miller, Chair of the Institute for Supply Management Services Business Survey Committee, noting "increasing citations of tariff impacts, with some indication that business activity and imports are being driven by an attempt to get ahead of additional price increases while preparing for the holiday peak season."

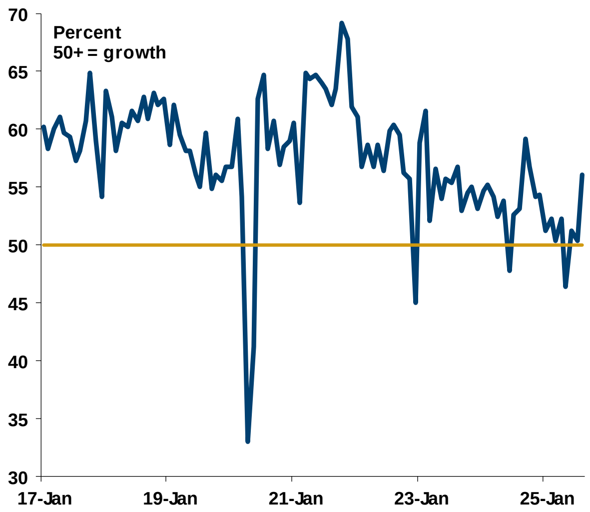
- The improvement in the composite measure was relatively broad based, with all but one of the subindexes that feed directly into the headline number indicating expansion in August. Perhaps most striking, the new orders component jumped 5.7 percentage points to 56.0 percent, its highest read since October 2024 and the 30th above-50 read in the past 32 months (chart, below right). While 13 industries reported an increase in new orders in August (versus seven in July), this development may have been influenced to a degree by levy front-running, with one comment stating: "Getting merchandise into the U.S. ahead of effective dates of tariff increases." The business activity component also stood out, advancing 2.4 percentage points to 55.0 percent, its 63rd consecutive expansionary reading. Nine industries indicated an increase in business activity in August, unchanged from the prior month. All that said, other recent data have suggested broad slowing in underlying domestic activity. The results were strong on face, but we will reserve judgment until readings over the next few months either confirm the firm results or suggest that they were one-off reads amid unimpressive trends.

ISM Services: Headline Index



Source: Institute for Supply Management via Haver Analytics

ISM Services: New Orders Index

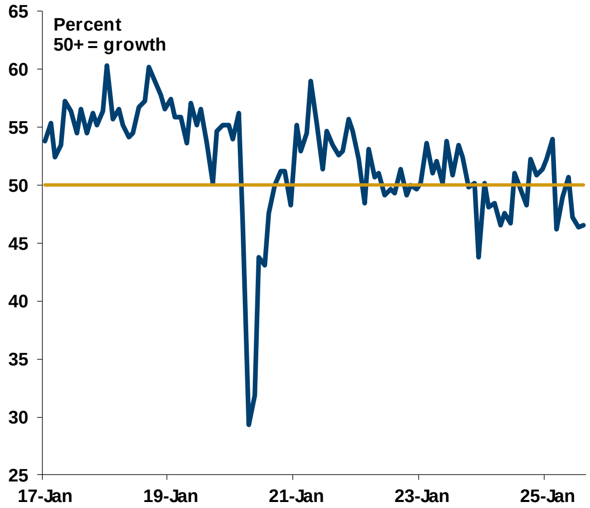


Source: Institute for Supply Management via Haver Analytics

- Meanwhile, the employment was the only major component to indicate contraction in the latest month, inching up 0.1 percentage point to 46.5 percent –its 5th sub-50 read in the past six months (chart, below left). Strikingly, only two industries reported an increase in headcounts in August, down from seven in July. As mentioned in the official release, service-providing firms are experiencing difficulty recruiting in the current market, with some having issues backfilling open positions with "qualified candidates."

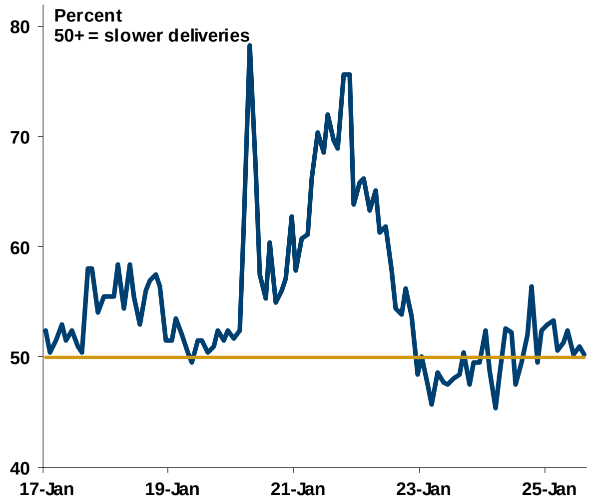
- The supplier deliveries component eased 0.7 percentage point to 50.3 percent, indicating "slower" deliveries for the ninth consecutive month (readings within the general vicinity of 50 percent suggest well-functioning supply chains; chart, below right). Six industries reported slower deliveries, down from seven in the prior month.

ISM Services: Employment Index



Source: Institute for Supply Management via Haver Analytics

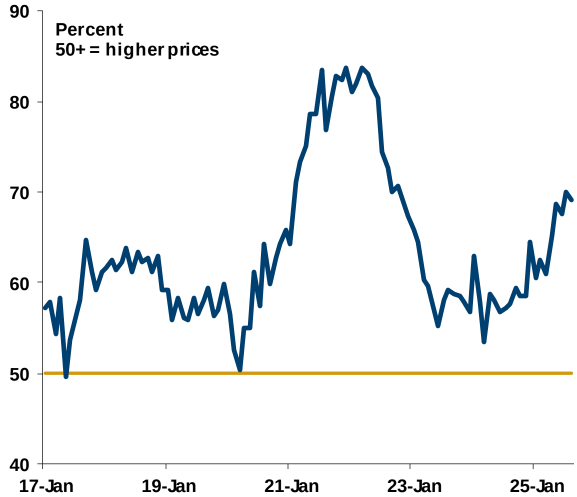
ISM Services: Supplier Deliveries Index



Source: Institute for Supply Management via Haver Analytics

- The prices index fell 0.7 percentage point to 69.2 percent in August, its 99th consecutive observation above 50.0 percent (and 9th above 60.0 percent). 16 industries reported an increase in prices paid, up from 15 in July. While the latest read is only modestly below the recent high of 69.9 percent recorded in the prior month, this index is still well below readings in the low 80s at the peak of recent inflation episode in 2021-2022 (chart). That being said, similar to previous reports, many firms indicated higher costs associated with tariffs, with some still waiting for the complete impact to be felt before making potential adjustments to their own pricing strategy.

ISM Services: Prices Index



Source: Institute for Supply Management via Haver Analytics