U.S. Flash

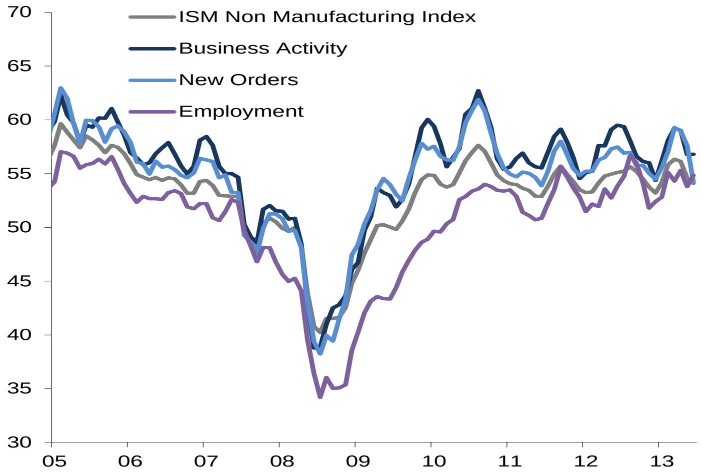
ISM Non-Manufacturing Decelerates Slightly in December

- **The ISM Non-Manufacturing Index fell to 53.0 from 53.9 in November**
- **New orders dropped dramatically, below 50 to the lowest level in over four years**
- **Employment index surged from 52.5 to 55.8 in December**

The ISM Non-Manufacturing Index fell slightly in December to 53.0, largely attributed to a free-fall in the new orders component. The new orders index declined at the fastest pace since the crisis and fell below 50 for the first time since July 2009. Business activity remained relatively flat in December, ticking down to 55.2 from 55.5 in November, but the index still continues to display healthy expansion above 50. However, the drop in new orders points to a more pronounced slowdown in business acitivty in the months to come, unless we see a sharp reversal in demand for January. The shining star of the report was the employment index, which increased to 55.8 after a sharp decline in November. The acceration of hiring in the services sector was steady through 2013, as the index remained above 50 for every month this year, signaling positive expansion plans among non-manufacturing firms. Furthermore, the positive uptick in the employment index boads well for the economy and may boost expectations for December's jobs report on on Friday. Among the other components of the ISM index, import and export and export orders experienced large declines but remained above 50 – a similar story as in manufacturing and suggesting minial change in international trade patterns for the month. Inventories, which had been a strong contributor to overall economic growth in 3Q13, declined heavily alongside the fall in new orders.

Overall, the ISM Non-Manufacturing report was not as strong as hoped in December, dropping below the expansionary threshold and possibly pointing at a slow start to business activity in 2014. The sharp slowdown in new orders is particularly concerning, suggesting that the higher than expected 3Q13 GDP figure is attributed to retailers holding onto large inventories due to lower than expected sales and not to anticipated future demand. Still, with employment showing healthy gains and business activity high, we expect the sector to remain mostly stable as we enter 1H14.

Chart 1
ISM Non-Manufacturing Index, New Orders & Employment
SA, 50+ = Economic Expansion



Source: Institute for Supply Management & BBVA Research

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