TD Economics

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Data Release: ISM Services Fall Slightly in November

- The ISM services index fell slightly to 52.0 in November, frustrating market expectations for a 53.9 reading.

- The details of the report were mixed. The business activity, prices paid, and new orders sub-indices all posted gains, while the employment sub-index fell 4.4 percentage points to 48.9, its second lowest reading in a year and a half.

Key Implications

- Today's report is ho-hum at best. While the service sector continues to grow, purchasing manager sentiment – which has registered little change in the second half of the year – suggests that momentum in the sector remains elusive.

- Or is it? In Q3, two-thirds of the gain in GDP came from consumer spending on services – its largest quarterly contribution to growth since 2005. This stellar performance occurred despite the ISM data suggesting otherwise. The disconnect between the data coming out of the real economy and the undistinguished results of survey-based indicators such as the ISM highlights the general sense of pessimism pervading the economy today.

- We, however, remain cautiously optimistic that the service sector will stay strong into Q4, barring a major disruption from Europe. While service spending in October was relatively weak, a corresponding jump in real income growth coupled with last week's decent jobs report sets the stage for a service sector comeback in the closing months of the year.

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