

## ECONOMIC NEWS

# United States: The ISM Non-manufacturing Index Also Drops

### HIGHLIGHTS

- ▶ The ISM manufacturing index fell in April, from 52.5 in March to 41.8, its lowest point since March 2009.
- ▶ Five of the ten sub-indices were down. The primary declines were in current production (-22.0 points), new orders (-20.0 points) and employment (-17.0 points). Exports (-9.6 points) and order backlogs (-7.3 points) also fell.
- ▶ The indices that were up were supplier deliveries (+16.2 points), inventory sentiment (+14.8 points), imports (+9.1 points), inventories (+5.4 points) and prices (+5.1 points).

### COMMENTS

What's surprising is not the drop in the ISM non-manufacturing index released today (the result even exceeds the consensus forecast), but rather its resilience during the previous months. Clearly, the COVID-19 crisis has been especially hard on the services-producing sector, although the 52.5-mark reached in March failed to reflect this. April's plunge—the worst monthly decline since the index was first released in 1997—is a better reflection of the current circumstances.

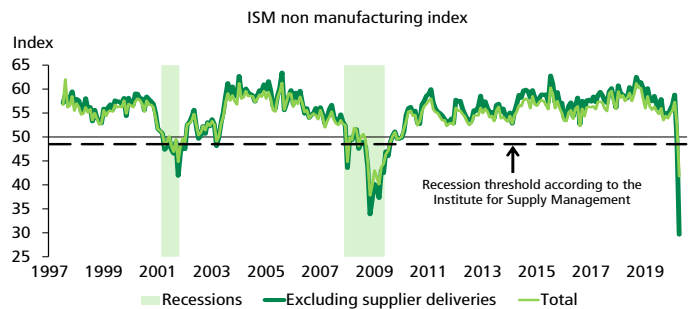
Like the ISM manufacturing index, the ISM non-manufacturing index was supported by the supplier deliveries component, which represents one quarter of the calculation for the total index (contrary to one-fifth for the ISM manufacturing index). However, the 23.1-point hike since January isn't so much the result of overly strong demand, which would have negatively impacted supplier performance, but rather the interruption or slowdown caused by the public health measures. Without the increase in the supplier deliveries component (considering only the components relating to current production, new orders and employment), the ISM non-manufacturing index would be no higher than 29.6, far lower than the level reached in 2008–2009.

### IMPLICATIONS

The decrease in the ISM non-manufacturing index meant a drop below the 50 mark for the first time since December 2009.

### GRAPH 1

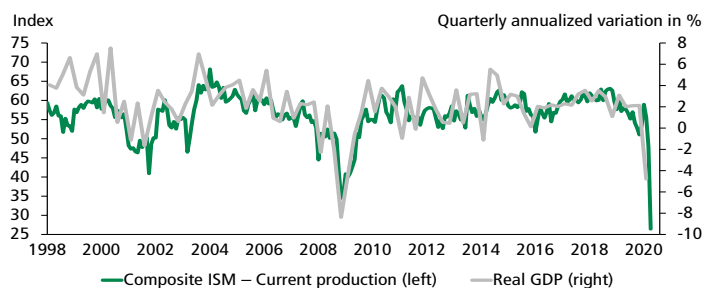
The ISM non-manufacturing index tumbled below 50



Sources: Institute for Supply Management and Desjardins, Economic Studies

### GRAPH 2

The decline in the ISM indices probably underestimates the plunge in real GDP



Sources: Institute for Supply Management, Bureau of Economic Analysis and Desjardins, Economic Studies

This decline, along with that of the ISM manufacturing index, suggests that real GDP has contracted significantly. In fact, given the current situation, the decline in production could prove to be much worse than the ISM indices appear to indicate.

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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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