

ECONOMIC NEWS

United States: ISM Services Hits New Peak

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HIGHLIGHTS

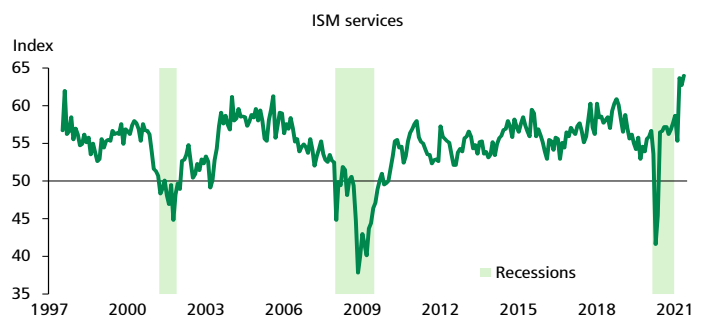
- ▶ The ISM services increased by 1.3 points in the past month, from 62.7 in April to 64.0 in May. This is its highest level since it was introduced in 1997.
- ▶ Seven of the ten sub-indexes advanced. The main increases stem from order backlogs (+5.4 points), supplier deliveries (+4.3 points), prices (+3.8 points) and current activity (+3.5 points).
- ▶ Declining indexes are inventory sentiment (-6.3 points), imports (-5.3 points) and employment (-3.5 points).

COMMENTS

Like the ISM manufacturing, which rose 0.5 points in May, the services index also points to accelerated economic growth in the United States. However, while the manufacturing index remains below last March's all-time high, the ISM services index has broken through this ceiling to reach its highest level in over 23 years. The ISM services' strong performance is not really surprising at this point. Several states continue to reopen services that were most affected during the worst of the pandemic. It is only natural that the easing or even elimination of public health measures will greatly benefit the services sector. Added to this, according to businesses' comments cited by the Institute for Supply Management, are the continued effects of federal assistance adopted in March, vaccination and the resumption of pent-up demand. That said, the comments also made several references to the constraints brought on by material shortages, supply chain disruptions and cost increases. This is particularly evident in some of the ISM services sub-indexes, which have seen sharp increases, such as supplier deliveries, order backlogs and prices paid. Hiring difficulties are also a major concern and likely contributed to the surprising decline in the employment component of the ISM services.

GRAPH 1

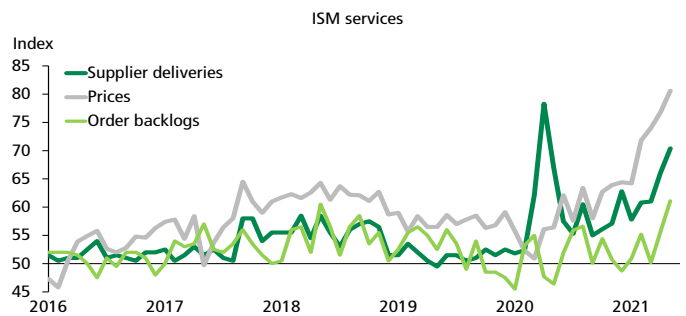
ISM services reaches its highest level since it was first published in 1997



Sources: Institute for Supply Management and Desjardins, Economic Studies

GRAPH 2

ISM services components point to procurement difficulties



Sources: Institute for Supply Management and Desjardins, Economic Studies

IMPLICATIONS

The ISM services' strong performance is yet another sign that the U.S. economy will grow strongly in the second quarter of 2021. However, the index also signals that supply, cost and labour constraints are a real headache for businesses.