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# TD Economics

**Data Release: Service sector activity slows in December but ends 2015 on a solid footing**

- The Institute for Supply Management (ISM) non-manufacturing index slipped by 0.6 points to 55.3 in December. The headline surprised to the downside, with consensus forecast expecting a slight uptick to 56.0.
- The underlying details were better than the headline. In particular, some of the key components, such as business activity (+0.5 pts to 58.7), new orders (+0.7 pts to 58.2) and employment (+0.7 pts to 55.7), posted gains on the month. New export orders also improved substantially (+4 pts to 53.5), even as the imports component weakened on the month (-2 pts to 49.0).
- These gains were offset by declines in the backlog orders (-1.5 pts to 50.0), inventories (-1.5 pts to 53.0), and supplier deliveries (-4.5 pts to 48.5), which all deteriorated in December. Disinflationary pressures have also re-emerged, with prices paid subcomponent (-0.8 pts to 49.7) falling back into contractionary territory.
- Of the 18 non-manufacturing industries surveyed, 11 reported growth in December, down slightly from 12 in the month prior. Performance was unchanged in two, and contracted in five: Other Services; Educational Services; Wholesale Trade; Public Administration; and Transportation & Warehousing.

**Key Implications**

- Despite the weaker than expected print, there were no big surprises in today's report. Activity in the U.S. service sector continued to expand at a healthy clip at year-end, with the ISM non-manufacturing index remaining firmly in expansionary territory. This is a stark contrast to the manufacturing sector, where the ISM index has slid deeper into contractionary territory at the end of 2015.
- Overall, the U.S. economic story continues to be the one of an acute dichotomy between the performance of manufacturing and non-manufacturing industries, as evidenced by the slightly diminished but still large gap of 7.1 points between the two indexes. This divergence is likely to persist through the first half of 2016. While services sector will continue to reap the benefits from strength in domestic demand, U.S. manufacturers will continue to contend with weak global growth, high dollar, and the slowdown in the energy sector.
- This two-tracked nature of U.S. economic progress is also likely to manifest in Friday's employment report. Manufacturing sector has shed jobs in three out of the past four months, and this lackluster performance will likely persist in December. Meanwhile, the service sector is expected to continue to churn out jobs at a good pace, something that was apparent in the report's gain in employment component alongside an the strong ADP print.

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