

ISM Non-Manufacturing

The headline ISM Non-Manufacturing index unexpectedly lurches down 4.5 points (Consensus: +0.1 point; Decision Economics: +1.7 points), to 52.8.

Even worse, the main downward yank on the headline number came from the new orders index, which dropped 11.4 points, to 52.7--obviously a very negative indication on demand. The sudden sharp weakness is particularly troubling since the services sector of the economy--the bulk of this ISM reading--is ordinarily the most stably growing part of the economy.

Unless the problem proves transitory, it must reflect some seriously destabilizing factor. One candidate, of uncertain--but not indefinite--duration is the supply-chain disruption caused by the Japan earthquake.

Meanwhile, the bedrock-confidence impact of the jolt seems to be restrained so far, with the employment index falling a relatively mild 1.8 points (to 51.9), even as the more-flighty business-activity index dropped 6.0 points (to 53.7). Rounding out the moves in the indexes actually factored-into the headline number, the supplier delivery reading rose 1.5 points, to 53.0.

Fed observers will obviously be perplexed by the data, hawks more than doves, but will reserve judgment unless other services activity indicators--notably retail sales and payroll employment in services--weaken too.