



Economics Group

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ISM Non-Manufacturing: Service Sector Holding Its Ground

The ISM non-manufacturing index came in at 53.7 in August; the slow growth expansion in the service sector continues. The employment component added 4.5 points in August to come in at 53.8.

Divergence Between Manufacturing and Service Sector

Today's better-than-expected number for the ISM non-manufacturing index offers further affirmation of the fact that the service sector seems to be remaining in slow growth mode even as the factory sector is showing signs of modest declines. While the ISM manufacturing index has been in contraction mode for three straight months, this marks the second consecutive monthly improvement for the non-manufacturing index.

Jump in Orders Proved Unsustainable

In last month's report, the new orders index climbed a full point to 54.3 and we observed at the time that the jump came as something of a surprise given the slowdown we have seen in orders in the hard data and the weakness in the orders components in other surveys. The new orders gain also seemed unsustainable given the deterioration in order backlogs. Our suspicions were not ill founded; the new orders component gave up some ground here in August falling to 53.7. We think some further deterioration here cannot be ruled out as backlogs, while they have improved, remain relatively low at 50.5 in August.

Finally, Some Decent News for Jobs

Last month the employment component spooked market watchers by slipping into contraction territory. This gauge of business hiring climbed back into expansion in August, rising 4.5 points to 53.8, which is the best reading for this component since April. The increase will likely engender more comparisons of this period to the patterns of 2010 and 2011 where the economy and job growth seemed to stall in the summer only to come back again in the fall. Combined with separate reports this morning of falling unemployment claims and a better-than-expected ADP report this makes the third firmly positive indication for future job growth.

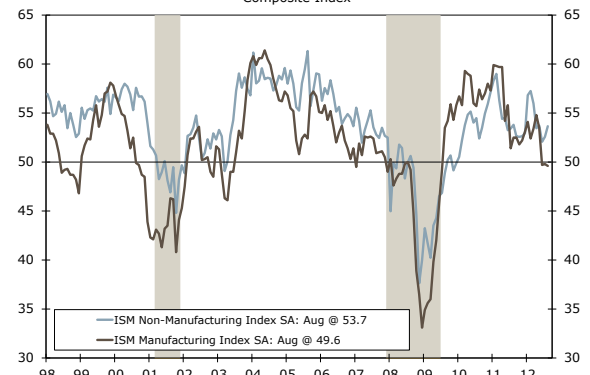
Supplier deliveries also climbed out of contraction and the import index edged higher but remains below the key "50" line. Export orders strengthened to 52.0 from 51.0. The prices component surged to 64.3. Taken together these moves point to a still slow pace of economic growth and still weak demand in the economy.

Growth Outlook Unchanged

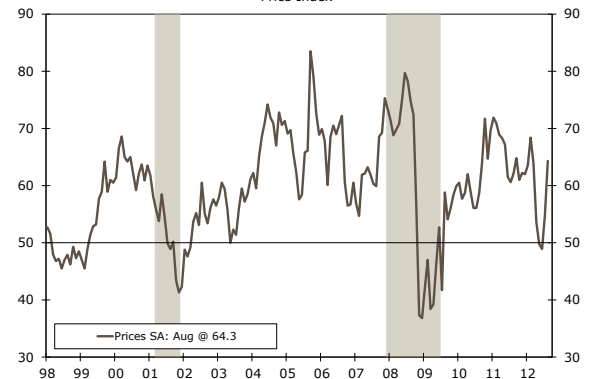
After several weeks of mixed outcomes from various economic indicators, we have revised our growth forecast for the remaining quarters of 2012 to a pace of roughly 1.6 percent.

The improvement in today's non-manufacturing index is a welcome offset to the weaker ISM manufacturing print earlier this week. One major takeaway here is the return to springtime levels for the employment component.

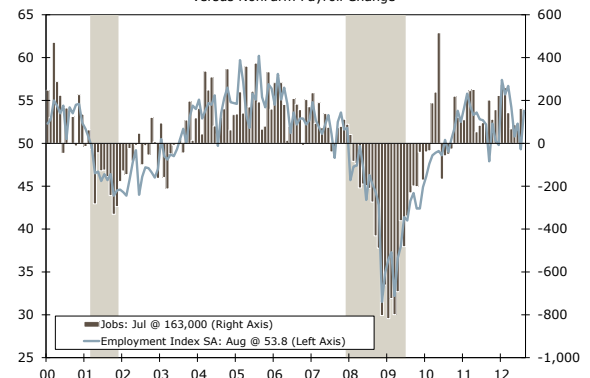
ISM Manufacturing & Non-Manufacturing
Composite Index



ISM Non-Manufacturing Index
Price Index



ISM Non-Manufacturing Employment
versus NonFarm Payroll Change



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