



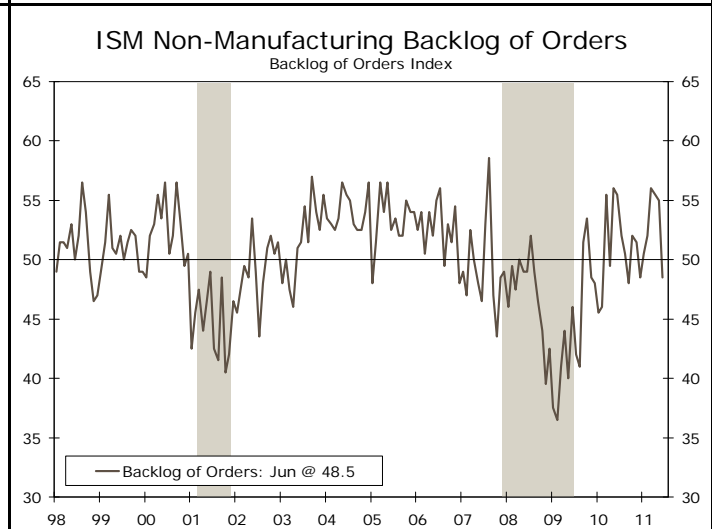
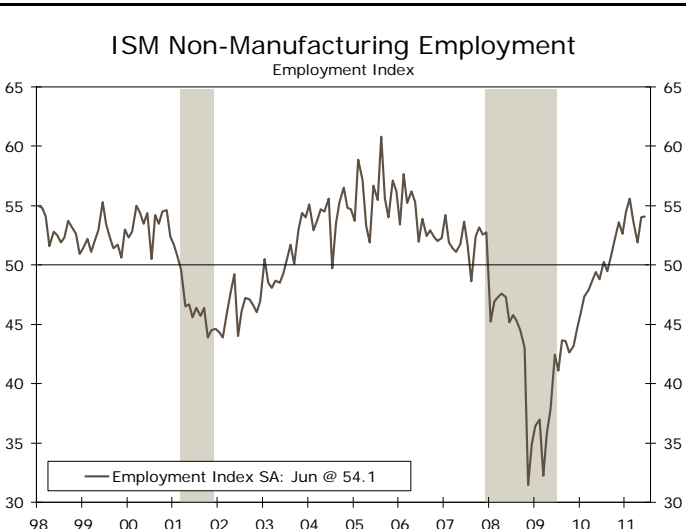
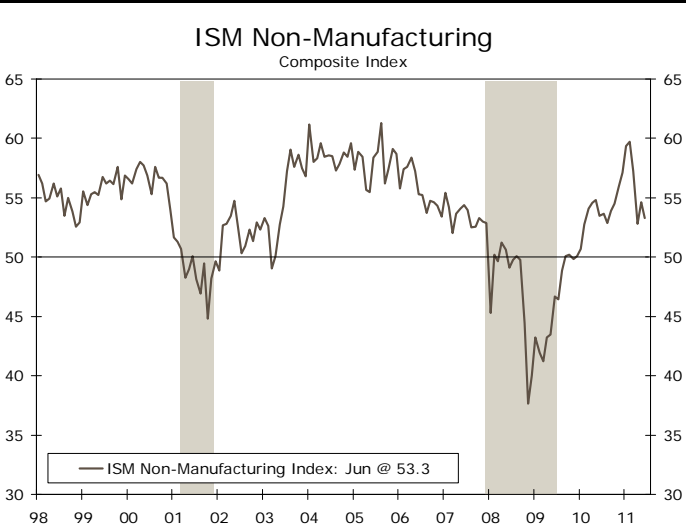
Economics Group

John Silvia, Chief Economist
john.silvia@wellsfargo.com • (704) 374-7034
Tim Quinlan, Economist
tim.quinlan@wellsfargo.com • (704) 374-4407

ISM Non-Manufacturing Soft, Watch Out for Order Backlogs

The headline ISM non-manufacturing reading was a bit weaker than expected, though the employment component edged higher and the inventories component came down slightly. Order backlogs fell below 50.

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| <p>Headline Weak, But Jobs Stay Positive</p> <ul style="list-style-type: none"> • The ISM non-manufacturing index came in at 53.3, a bit weaker than the 53.7 that had been expected, but still consistent with continued economic growth in the second half of the year. • The silver lining is that the employment index remained in expansion territory. Presently at 54.1, this reading suggests prospects for continued payroll growth in the coming months. | <p>Early Warning Orders Are Drying Up?</p> <ul style="list-style-type: none"> • The new orders index slipped to 53.6 in June from 56.8 in May. By itself, this would not rattle our cages too much—a number above 50 is consistent with steadily increasing orders. What does get our attention is the fact that the pipeline may be drying up. The backlog of new orders index slipped to 48.5. This series is not seasonally adjusted, but the below-50 number is worrying because it has been a good predictor of employment trends. |
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Source: Institute for Supply Management and Wells Fargo Securities, LLC

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|-----------------------|--|----------------------------------|---------------------------------|
| Diane Schumaker-Krieg | Global Head of Research & Economics | (704) 715-8437 (212) 214-5070 | diane.schumaker@wellsfargo.com |
| Paul Jeanne | Associate Director of Research & Economics | (443) 263-6534 | paul.jeanne@wellsfargo.com |
| John E. Silvia, Ph.D. | Chief Economist | (704) 374-7034 | john.silvia@wellsfargo.com |
| Mark Vitner | Senior Economist | (704) 383-5635 | mark.vitner@wellsfargo.com |
| Jay Bryson, Ph.D. | Global Economist | (704) 383-3518 | jay.bryson@wellsfargo.com |
| Scott Anderson, Ph.D. | Senior Economist | (612) 667-9281 | scott.a.anderson@wellsfargo.com |
| Eugenio Aleman, Ph.D. | Senior Economist | (704) 715-0314 | eugenio.j.aleman@wellsfargo.com |
| Sam Bullard | Senior Economist | (704) 383-7372 | sam.bullard@wellsfargo.com |
| Anika Khan | Economist | (704) 715-0575 | anika.khan@wellsfargo.com |
| Azhar Iqbal | Econometrician | (704) 383-6805 | azhar.iqbal@wellsfargo.com |
| Ed Kashmarek | Economist | (612) 667-0479 | ed.kashmarek@wellsfargo.com |
| Tim Quinlan | Economist | (704) 374-4407 | tim.quinlan@wellsfargo.com |
| Michael A. Brown | Economist | (704) 715-0569 | michael.a.brown@wellsfargo.com |
| Tyler B. Kruse | Economic Analyst | (704) 715-1030 | tyler.kruse@wellsfargo.com |
| Joe Seydl | Economic Analyst | (704) 715-1488 | joseph.seydl@wellsfargo.com |
| Sarah Watt | Economic Analyst | (704) 374-7142 | sarah.watt@wellsfargo.com |

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