

Economics Group

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Service Sector Expansion Maintains Steady Pace

A reading of 55.4 in April from the Institute for Supply Management (ISM) is about the same as last month's headline, but components have changed. Private employment growth continues to be a concern.

Flat Reading, Shifting Components

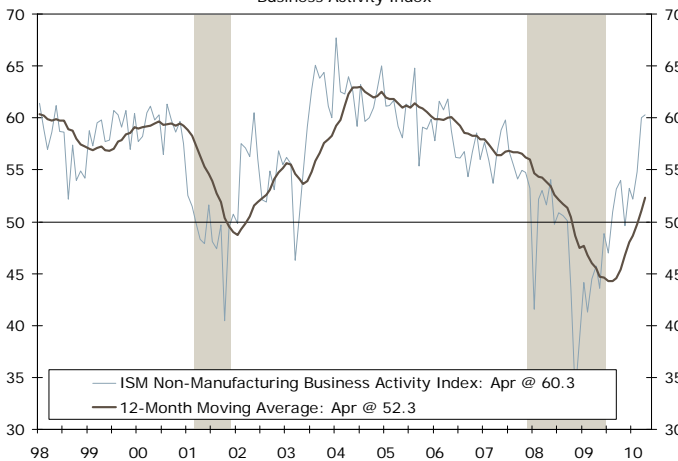
- The headline stayed above 50, in expansion territory, and the business activity index increased to 60.3, reflecting current strength. New orders declined more than 4 percentage points, showing that the recovery will likely continue dawdling.
- While the majority of industries reported growth, including real estate, agriculture and entertainment, the few hold-outs in April included utilities, education and healthcare.

Private Sector Labor Market Struggles, Inventories up

- The employment index failed to break through into expansion territory for the 28th straight month. In contrast to the 58.5 reading from the employment component of the manufacturing index, gains in services have yet to occur.
- The inventory index showed the largest movement, up 8 percentage points to 54.5. This is in line with our expectation for continued inventory building during the economic recovery.

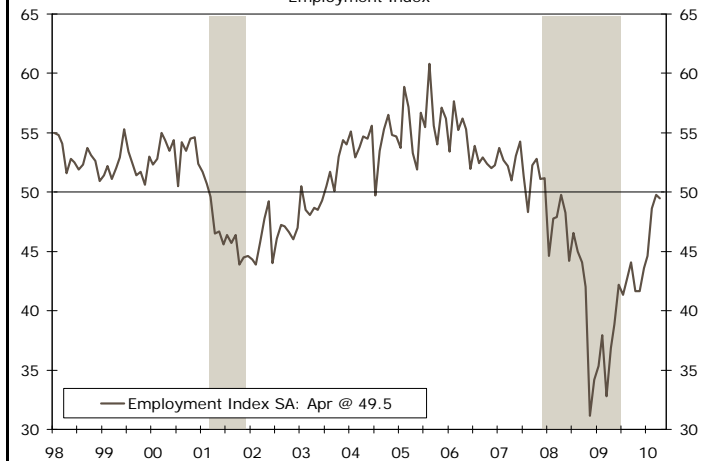
ISM Non-Manufacturing Business Activity

Business Activity Index



ISM Non-Manufacturing Employment

Employment Index



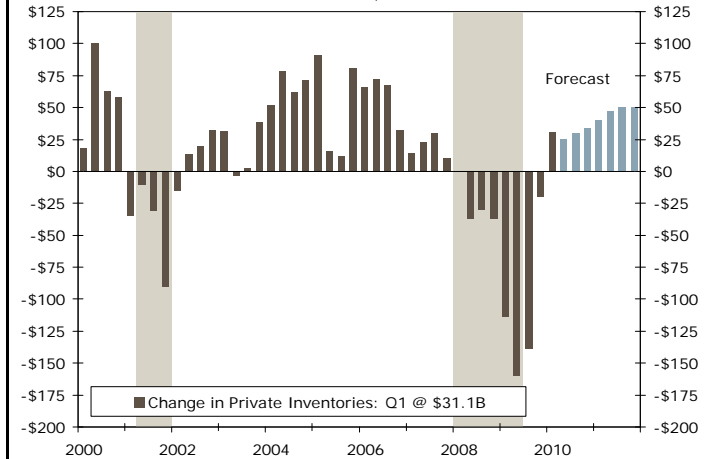
ISM Non-Manufacturing New Orders

New Orders Index



Change in Real Inventories

Billions of Dollars, Annual Rate



Source: U.S. Department of Commerce, Institute for Supply Management and Wells Fargo Securities, LLC

Wells Fargo Securities, LLC Economics Group

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