



Economics Group

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ISM Nonmanufacturing Survey Disappoints

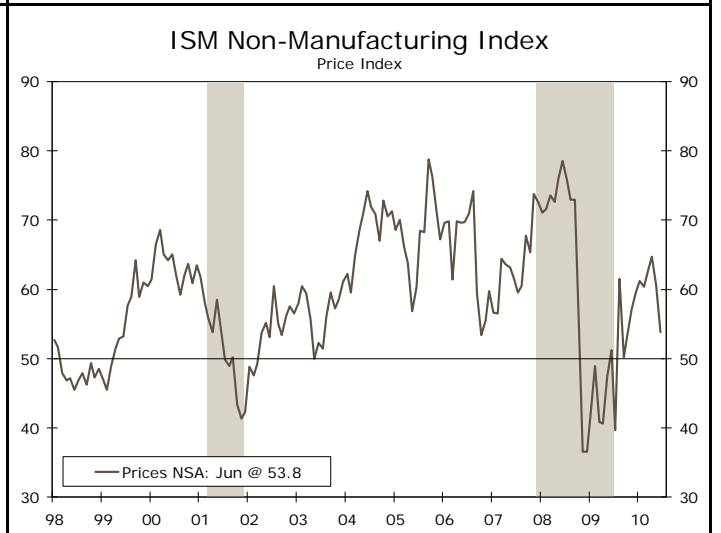
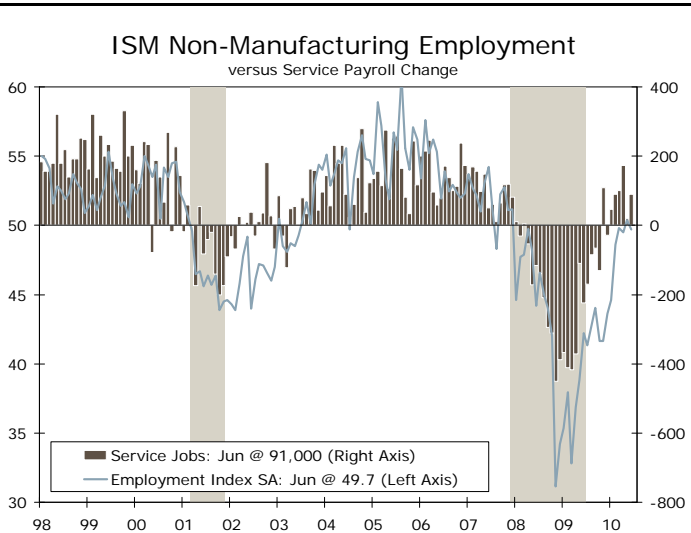
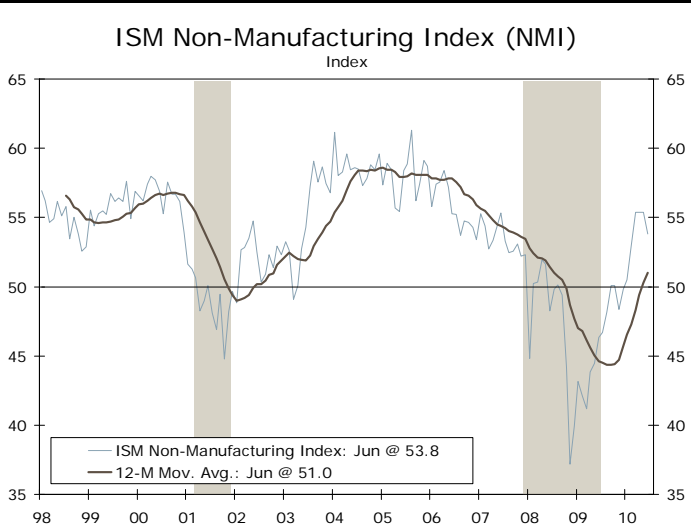
The headline reading of the health of the non-factory sector was below the consensus estimate, a weaker but still expansionary 53.8. The contraction in employment and drop in new orders are particularly bothersome.

Non-Factory Sector Growth Slows

- The consensus overestimated June performance in the service sector with every series flat or weakening somewhat, and several showing outright contraction, including employment.
- At 49.7 percent, the employment series returned to contraction territory after just one month of growth. While nonfarm payrolls in the service sector were positive in June, expectations for strong growth are likely to be unfulfilled.

Second Half Slowdown, Not a Double Dip

- While still in expansion, new orders, a signal of future direction, slowed 2.7 percentage points to 54.4. Combined with lower order backlog, a slower second half is a credible outcome.
- Prices paid showed a 6.8 point drop, reinforcing a lack of inflation concerns. Inventories grew at a slower pace and will likely not provide the boost to growth seen in the first two quarters, another contributor to weaker third quarter GDP.



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