



Economics Group

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Slight Improvement in Service Sector PMI

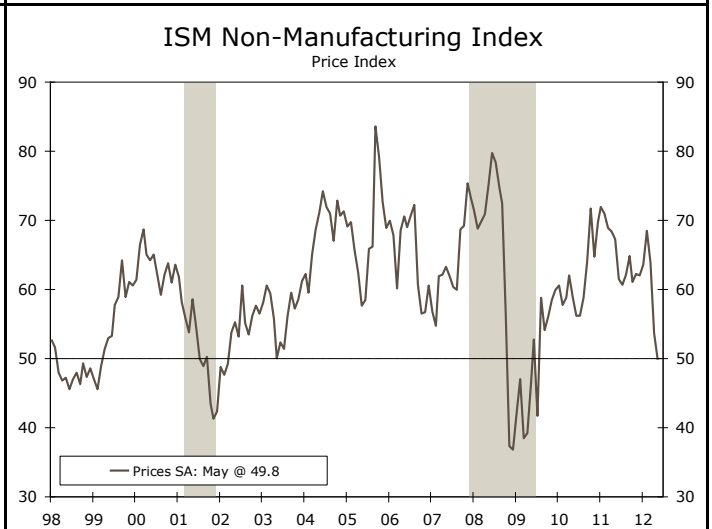
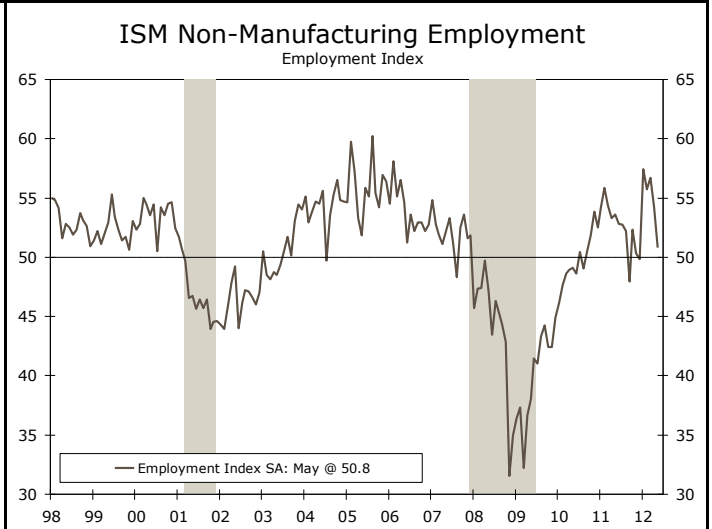
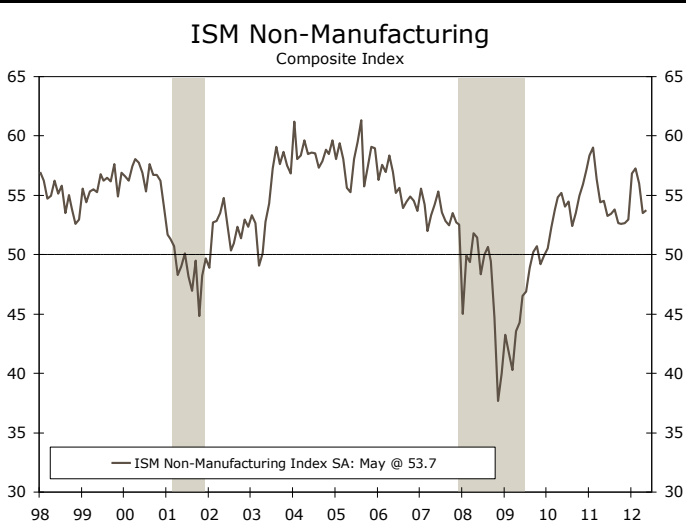
The ISM non-manufacturing index increased in May, with help from orders and inventories. However, troubling declines in employment and export orders signal that the expansion faces headwinds.

Swelling Inventories and Mixed Orders

- The slight improvement in today’s ISM non-manufacturing report is not cause for celebration. While some components are indeed signaling a faster pace of expansion, the quicker pace of inventory growth could be signaling an unintended build.
- The most positive news here is that the new orders component climbed to 55.5 from 53.5 in the prior month, but the fact that export orders slowed to 53.0 from 58.0 rains on the parade.

Stall-Speed Job Growth, Easing Price Pressures

- The slowing trend in job growth in recent months appears to be poised to continue. The employment component slumped to 50.8 as businesses appear to be scaling back plans to add new people to the payroll.
- A potential bright spot here is that wholesale price inflation may continue to slow in future months. The price index fell into contraction territory for the first time in nearly three years.



Source: Institute for Supply Management and Wells Fargo Securities, LLC

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