

Economics Group

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The Service Sector Posts Slightly Below Consensus Reading

The ISM non-manufacturing index fell 1.6 points in June to 52.1, the lowest reading since early 2010. The employment component increased, while business activity, new orders and supplier deliveries pulled back.

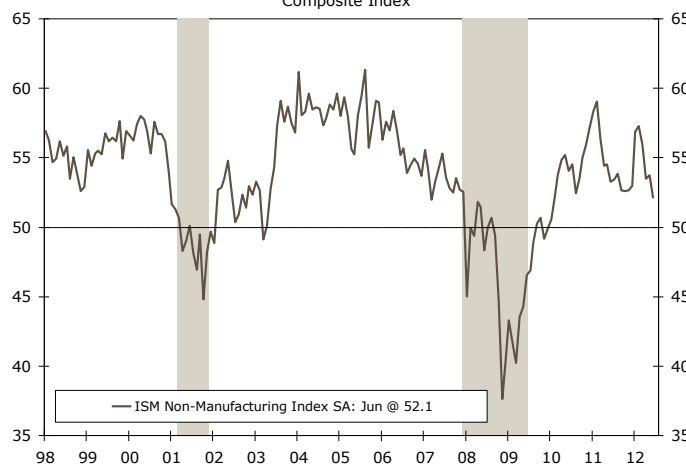
Slower Pace in the Service Sector

- With 12 industries reporting growth in June, the service sector continues to reflect somewhat broad-based gains, but the pace has slowed. The forward-looking new orders component still remains in expansion territory, but posted its lowest level in nearly a year. Order backlog and export orders both dipped below the breakeven line in June. With imports remaining largely unchanged at 53.5, trade may detract from real GDP.

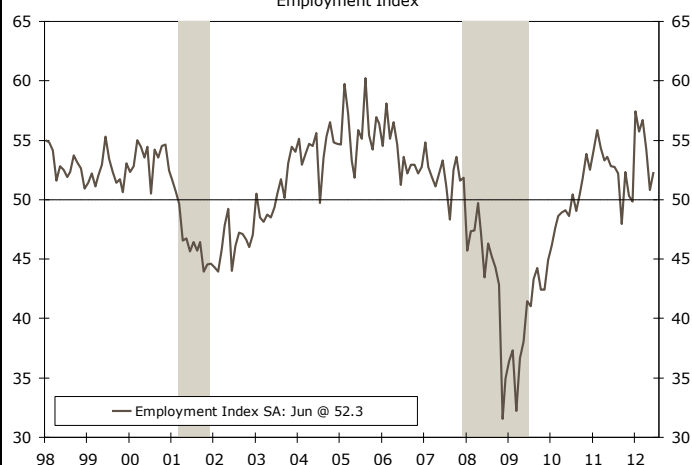
Employment Gain Suggests Positive Nonfarm Payrolls

- The employment component rose to 52.3, suggesting continued private sector employment gains in June. In an earlier released report, ADP showed solid broad-based employment increases in June. While the manufacturing sector posted a gain, much of the increase continues to be in small service-sector businesses. That said, over the past three months, the ADP report has overshoot private nonfarm payrolls by an average of 45k jobs.

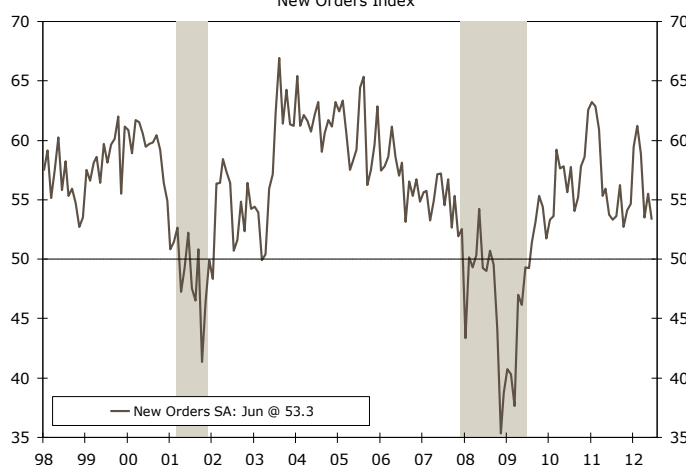
ISM Non-Manufacturing
Composite Index



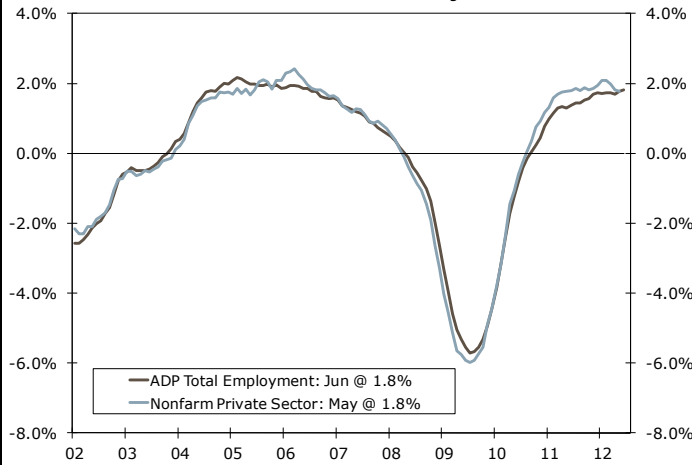
ISM Non-Manufacturing Employment
Employment Index



ISM Non-Manufacturing New Orders
New Orders Index



ADP vs. Nonfarm Private Job Growth
Year-over-Year Percent Change



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

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