



Economics Group

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Decent ISM Non-Manufacturing Report But Not All Good

The ISM non-manufacturing index came in at 56.0 in July. The better-than-expected outcome ties the month of February for the fastest pace of expansion in the service sector. But the details are less encouraging.

Stutter Step in Orders Backlogs and Export Orders

In addition to the positive outturn in the headline, the ISM non-manufacturing business activity index jumped 8.7 points to lift this measure of activity in the service sector to its highest level so far in 2013.

In terms of the underlying components, all items were in expansion territory, save export orders and orders backlogs. After the business activity index, the largest point improvements this month were prices (up 7.6 points to 60.1) and new orders (up 6.9 points to 57.7).

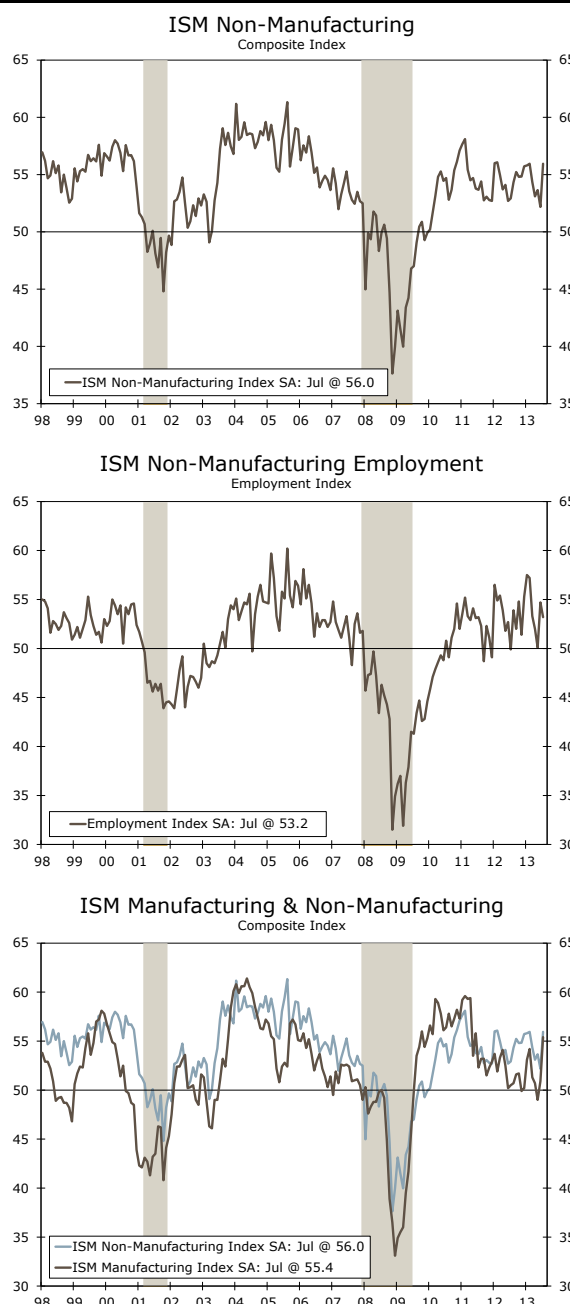
The gain in prices is the first indication of wholesale price inflation in this report since the early months of the year. The substantial improvement in orders is a welcome gain, but the weakness in orders backlogs (46.5) and export orders (49.5) takes the shine off the apple somewhat. We saw similar trade-related numbers in the manufacturing ISM last week with only tepid growth in export orders and more substantial pace of expansion for import orders. If there is a theme here in the July numbers, it is that domestic growth is the primary driver of the improving activity. The question going forward will be whether an improving picture at home will be enough to offset a slightly slower pace of growth abroad. Figures for the June trade balance due out tomorrow morning are expected to show a modest narrowing in the trade deficit.

The employment component lost a bit of ground, not altogether surprising given last week's disappointing jobs report. The timing of the releases for this report and the jobs report means that some months you have the ISM employment number before employment Friday and sometimes you do not. Had the order been reversed for July, expectations for the all-important jobs number would have been dialed back a bit. That said, the present level of 53.2 is still consistent with job growth, perhaps just not at a fast enough pace to bring down the unemployment rate meaningfully.

What Does This Mean for the Outlook?

Combined with last week's much better-than-expected number for the manufacturing ISM, today's report offers an affirmation that business activity accelerated in July.

Manufacturing surveys have been inconclusive in recent months, even as service sector measures have generally been more positive. The takeaway from the survey data from the ISM is that we are on firmer ground in terms of business confidence, with most of the recent improvement manifested in the manufacturing side. The service sector has not given up ground, but the spike in the prices component and the weakening in some of the orders measures bears watching in coming months.



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