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## ISM Non-Manufacturing Index (6/09)



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The Institute for Supply Management (ISM) Non-Manufacturing Index rose more than expected in June. In contrast to the manufacturing survey, the increase was broad-based and the headline number may even understate the strength of the underlying data. The indices for new orders, production/activity, export orders and order backlogs all increased. The price index moved back over 50 after seven months of signaling price declines. Inventories continued to fall, but a larger share of purchasing managers felt their companies' inventories were too high than a month earlier.

- The headline non-manufacturing PMI rose to 47.0 in June from 44.0 in May, compared with a median forecast of 46.0 and a range of individual forecasts from 44.0 to 48.0. The business activity index, the old headline series for non-manufacturing industries, rose even more strongly to 49.8 from 42.4. Neither can be correlated to a specific GDP growth rate, but both clearly point to a less severe rate of contraction. In June, 28% of firms said that business activity was stronger than it had been a month before, compared with 20% in May. However, industries reporting slower activity in June included retailing, wholesale trade, transportation and warehousing and mining, while both financial services and real estate reported higher activity.
- In contrast to June's ISM manufacturing survey, where the new orders index fell back below 50, almost all major series in the non-manufacturing survey registered increases in June. New orders rose to 48.6 from 44.4 as 29% of firms said that new orders had increased vs. 23% a month before, the order backlogs index rose to 46 from 40, and the export orders index (although somewhat non-representative since 74% of respondents either have no export orders or else do not measure them) rose to 54.5 from 47. The import index rose modestly to 47 from 46; it also includes fewer than half the survey respondents.
- The employment index increased to 43.4 from 39, as the percentage of respondents increasing employment was unchanged at 13% but the share cutting jobs fell from 29% to 23%. According to the ISM, real estate and financial services were among the industries adding to employment and health care and education were among those reducing jobs; this seems to contradict industry level data in Thursday's BLS employment report.
- The inventory index fell to 45.0 in June from 47.0, suggesting a continued contraction in inventories. Eleven industry groups reported inventory declines in June while four reported higher inventories; 28% of respondents either do not have inventories or do not measure them. Nevertheless, the inventory sentiment index, which tracks how purchasing managers feel about their own companies' inventories, rose to 67.0 from 62.5. In June 38% of purchasing managers believed their companies' inventories were too high, compared with 28% in May.
- The price index rose to 53.7 from 46.9 in May, its first reading over 50 since last October. In June 26% of respondents reported paying higher prices for materials and services than in May compared with 14% reporting lower prices; 17% had reported higher prices in May. Among items rising in price were copper, energy products (diesel fuel and gasoline), stainless steel products and tomatoes, while beef, paper and packaging products, notebook computers and natural gas declined in price.

*Source: Institute for Supply Management*

This report points to broad-based strength in non-manufacturing industries, in contrast to the somewhat more ambivalent results of the June manufacturing survey and the unexpectedly sharp decline in employment seen for June. Since some of the series not included in the headline index also rose sharply (e.g., export orders and order backlogs), the headline figure may even understate the strength seen of the underlying data. Nevertheless, the non-manufacturing index is much newer than the manufacturing index and is thus a somewhat less robust indicator even if it covers a wider range of activities. We continue to expect that the U.S. economy will begin to recover in this third quarter, but are also concerned that the near-term course of economic data may prove more uneven than seen in the spring. ■

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