

June ISM Non-Manufacturing Index

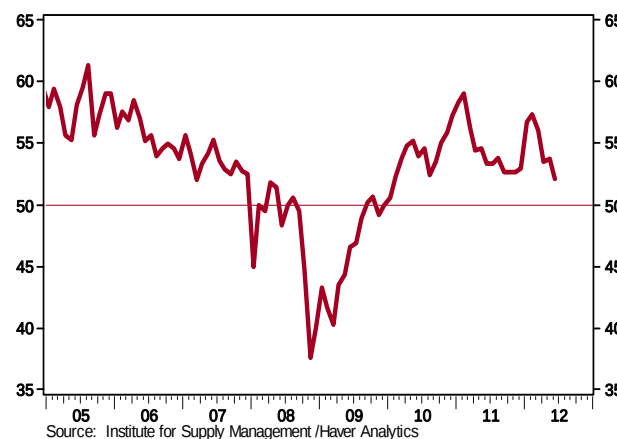
Brian S. Wesbury – Chief Economist
Robert Stein, CFA – Senior Economist
Strider Elass – Economic Analyst

- The ISM non-manufacturing index declined to 52.1 in June, coming in below the consensus expected 53.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The key sub-indexes were mostly lower in June but all remained above 50, signaling expansion. The new orders index declined to 53.3 from 55.5, the business activity index fell to 51.7 in June from 55.6, and the supplier deliveries index declined to 51.0 from 53.0. The employment index rose to 52.3 from 50.8.
- The prices paid index dropped to 48.9 in June from 49.8 in May.

Implications: The service sector continued to grow in June but at a slower pace, with the ISM service sector composite coming in at the lowest level since early 2010 and the sub-index for business activity at the lowest level since late 2009. We think the bad financial news coming out of Europe may be holding down the index relative to actual levels of activity, but also note that, at just above 50, the indexes are consistent with other data suggesting real GDP growth of 1% to 1.5% in Q2. Notably, however, the employment index strengthened to 52.3 from 50.8, suggesting service sector firms do not anticipate persistent weakness. It also helps confirm other recent positive data on the labor market (discussed below). On the inflation front, the prices paid index fell to 48.9. This is consistent with other indicators showing a temporary moderation in inflation. However, given the loose stance of monetary policy, we don't expect the lull to last. In other recent news, two good reports on the labor market earlier today. The ADP employment report showed an increase of 176,000 private sector jobs in June, easily beating the consensus expected 100,000. New claims for jobless benefits declined 14,000 to 374,000, the lowest level in six weeks. Continuing claims increased 4,000. These indicators suggest tomorrow's official Labor Department report will show a 120,000 increase in nonfarm payrolls and a 130,000 gain in private payrolls. In other recent news, autos and light trucks were sold at a 14.1 million annual rate in June, better than the consensus expected, up 2.2% from May and up 22% from a year ago. No matter how they answer surveys about how they *feel*, American consumers are *behaving* like they're more confident. No sign of a recession in any of these numbers.

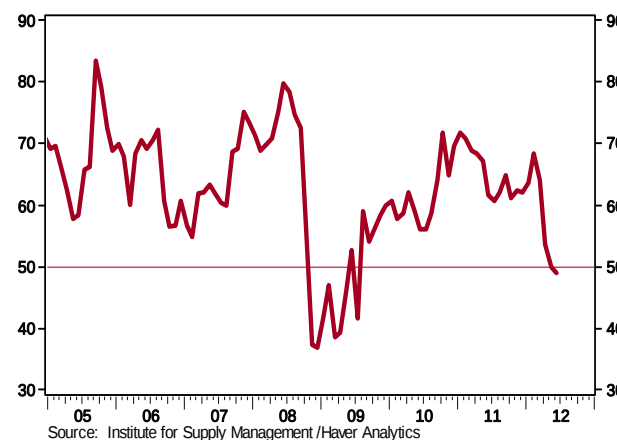
ISM Nonmanufacturing: NMI Composite Index

SA, 50+=Increasing



ISM: Nonmfg: Prices Index

SA, 50+ = Econ Expand



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	Jun-12	May-12	Apr-12	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	52.1	53.7	53.5	53.1	54.9	53.3
Business Activity	51.7	55.6	54.6	54.0	57.2	54.5
New Orders	53.3	55.5	53.5	54.1	57.0	53.7
Employment	52.3	50.8	54.2	52.4	54.5	52.8
Supplier Deliveries (NSA)	51.0	53.0	51.5	51.8	50.9	52.0
Prices	48.9	49.8	53.6	50.8	58.0	61.5

Source: Institute for Supply Management