



TD Economics

July 3, 2014

Data Release: Service sector growth slows modestly in June

- Following three consecutive monthly increases, the Institute of Supply Management (ISM) Non-Manufacturing Index took a small step back in June, edging down by 0.3 points to 56.0. This was slightly below market expectations, which called for a flat reading on the month.
- June's decline was entirely due to a large 4.6 points drop in the business activity sub-component, which fell from an elevated level of 62.1 to 57.5. The remaining sub-components delivered an improved performance. The employment sub-component led the way, rising by 2.0 points to 54.4. Supplier deliveries and new orders also increased, edging up by 1.0 and 0.7 points, respectively.
- Fourteen out of eighteen non-manufacturing industries surveyed reported growth in June. Four industries – education, accommodation & food, mining, and healthcare – reported a contraction in June, up from just one industry in May.

Key Implications

- Similar to its manufacturing counterpart, the ISM non-manufacturing index showed little movement in June, suggesting that service sector activity continued to expand at roughly the pace a month earlier. In terms of a quarterly pattern, non-manufacturing activity clearly picked up in the second quarter relative to the first with the average index reading rising from 52.9 in Q1 to 55.8 in Q2.
- Despite the pullback in June, the overall activity in non-manufacturing industries continues to advance at a healthy pace, with all index sub-components remaining firmly in expansionary territory. The continued robust performance of non-manufacturing industries, which account roughly 70% of GDP and 88% of private sector payrolls, bodes well for the economic outlook. This is further re-enforced by the uptick in new orders in today's report, which rose for the sixth consecutive month and is now at the highest level since April 2006.
- The strength in the employment sub-component was already telegraphed in this morning's payroll report, with private service-providing employment accelerating to its fastest pace since October 2012. Robust job creation should help recharge consumer spending, which will help businesses to maintain hiring momentum.

Ksenia Bushmeneva,
Economist

DISCLAIMER

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.

