TD Economics

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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.

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