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Data Release: ISM non-manufacturing index improves in May

- The ISM non-manufacturing index edged higher in May, increasing by 0.6 points to 53.7 – slightly better than the 53.5 the markets were expecting. An uptick in May was a welcome development, which came following two consecutive monthly declines.
- Business activity and new orders sub-components rebounded in tandem, each rising by 1.5 points to 56.5 and 56 points, respectively.
- The prices paid sub-component remained largely unchanged, edging down by 0.1 points.
- After three consecutive monthly declines, the employment sub-component retreated further in May. The sub-component fell by 1.9 points to 50.1, narrowly avoiding dipping into contractionary territory.

Key Implications

- Unlike its counterpart – the ISM manufacturing index which dipped below 50-point threshold earlier this week – the ISM non-manufacturing index remains well in expansionary territory. The latest value of the headline index suggests that economic activity in non-manufacturing sector continues to grow, expanding at a faster pace relative to a month earlier.
- Echoing last weeks surprising surge in consumer confidence, the business activity and new orders sub-components posted decent gains. However, these developments are bitter-sweet, as the continued deterioration in employment sub-component casts a shadow on the overall performance of the non-manufacturing sector.
- Today's release sets the stage for May's non-farm payroll report on Friday. So far this year, service sector firms have been at the forefront of job creation, generating 88% of all new jobs. In contrast, hiring in the goods-producing sector appears to be running out of steam, with tepid gains in March and outright losses in April. Given the disappointing reading on the ISM manufacturing report earlier this week, job growth in goods-producing industries is likely to remain tepid in May. As a result, the pressure is mounting on the services sector to drive employment forward. The decline in the employment sub-component, in addition to the soft ADP reading earlier today, suggests that Friday's payroll report may be a disappointing one.

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