U.S. Institute of Supply Management Non-Mfg. Index (July)

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August 4, 2010—10:00 am

ECONOMIC RESEARCH

HARRIS | BMO Nesbitt Burns | BMO Capital Markets™

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U.S. Non-Manufacturing Sector Growing Moderately

An unexpected pickup in non-manufacturing activity in July suggests the U.S. economy is still growing moderately, rather than stalling, though it has downshifted from the spring. The ISM non-manufacturing index rose modestly to 54.3 in July from 53.8 in June, still slightly below the Q2 average of 54.9. The upturn, along with a stronger-than-expected 8.8% spurt in new unit auto sales in July, suggests some upside risk to our 2.0% estimate for Q3 GDP growth.

The components were encouraging. New orders strengthened in July after slowing in the previous three months from high levels, likely benefitting from continued strength in business spending and exports. Employment picked up modestly, which, coupled with strength in the manufacturing ISM survey, supports our call for a 90,000 gain in private-sector payrolls (due Friday). While employment isn't growing fast enough to reduce the jobless rate, at least companies are hiring again. Prices paid for materials are rising only modestly, a big change from earlier in the year, and will contribute to the disinflationary pressure at the retail level.

(percent reporting)	Jul	Jun	May	10q2	10q1	Jul 09
Non-Mfg ISM	54.3	53.8	55.4	54.9	53.0	46.7
Business Activity	57.4	58.1	61.1	59.8	55.7	47.0
Employment	50.9	49.7	50.4	49.9	47.7	41.3
New Orders	56.7	54.4	57.1	56.6	57.3	48.6
Prices Paid	52.7	53.8	60.6	59.7	61.5	39.7
Backlog of Orders *	52.0	55.5	56.0	53.7	49.0	42.0
Supplier Deliveries *	52.0	53.0	53.0	53.2	51.2	50.0
New Export Orders *	52.0	48.0	53.5	52.8	50.2	47.5

* not seasonally adjusted

The Bottom Line: The ISM report will go some ways to soothing double-dip fears. The recent pullback in housing isn't dragging the whole economy into the abyss. On the data front, July is getting off to a good start—though that could be all for nought if Friday's jobs report doesn't confirm some improvement in private-sector payrolls growth.

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