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## ISM Non-Manufacturing Survey Results, July 2009



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The Institute for Supply Management (ISM) non-manufacturing index declined in July. The consensus expectation was for the index to rise from the previous month reading. In contrast to the manufacturing survey, which registered a significant improvement in manufacturing activity in July, the non-manufacturing activity showed moderate but broad-based decline from the previous month.

- The headline non-manufacturing PMI declined to 46.4 in July from 47.0 in June compared with a median forecast of 48.2 and a range of individual forecasts from 46.6 to 49.0. The business activity index, the old headline series for non-manufacturing industries, declined even more to 46.1 from 49.8. In July, only 19% of firms said that business activity was stronger than it had been a month before, compared with 28% in June. Industries reporting slower activity in July included management of companies, services, wholesale trade, finance and insurance, construction, transportation and warehousing.
- In contrast to July manufacturing survey, almost all major series in non-manufacturing survey registered slight decline in July from a very robust June levels. New orders decreased to 48.1 in July from 48.6 in June, as 26% of firms said that new orders have decreased vs. 23% a month before. The orders backlog index declined to 42.0 in July from 46.0 in June. The new export orders index declined to 47.5 from a strong 54.5 level, and imports index declined to 45.0 from 47.0 in the previous month. The last two indices, however, are somewhat less representative, as respondents reporting export and import orders constitute less than 50% of the sample.
- The employment index declined to 41.5 from 43.4, as the percentage of respondents increasing employment was unchanged at 13% but the share cutting jobs increased from 23% to 26%. According to the ISM, real estate and health care were among the industries adding to employment. Financial services, transportation and education were among those reducing jobs. Still the overall trend in employment is improving from the March low of 32.3.
- In the contrast to other components the inventory index rose to 47.0 in July from 45.0 in June, suggesting a slowing rate of contraction in inventories. Seven industry groups reported inventory increase in July while six reported lower inventories; 28% of respondents either do not have inventories or do not measure them. The inventory sentiment index, which tracks how purchasing managers feel about their own companies' inventories, declined to 62.5 from 67. In July 28% of purchasing managers believed their companies' inventories were too high, compared with 38% in June.
- The price index declined significantly by 12.4% to 41.3 from 53.7 in June. In July 28% of respondents reported paying lower prices for materials and services and 13% reported paying higher prices; this is compared to 26% who had paid higher prices in June. Among items falling in price were beef, fuel, gasoline, medical supplies, natural gas and steel products.

*Source: Institute for Supply Management*

The headline ISM non-manufacturing index fell short of expectations, which might have been set unrealistically high by extrapolating the last month's strong performance. Overall trend, however, remains upward and the decline from the previous very strong month is trivial. We continue to expect that the U.S. economy will begin to recover in this third quarter, but the road of recovery may be bumpy. ■

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