

May ISM Non-Manufacturing Index

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- The ISM non-manufacturing index increased to 53.7 in May, coming in above the consensus expected gain to 53.5. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The direction of the key sub-indexes was mixed in May, but all remain above 50. The new orders index rose to 56.0 from 54.5 and the business activity index increased to 56.5 from 55.0. The supplier deliveries index rose to 52.0 in May from 51.0 while the employment index declined to 50.1 from 52.0.
- The prices paid index declined to 51.1 in May from 51.2 in April.

Implications: Another piece of data, another Plow Horse report. Today's ISM services report came in at a respectable 53.7, signaling continued moderate growth in the service sector. Nothing in the report is reason to worry or reason to get too excited. The report is the 41st consecutive reading above 50, signaling expansion. The business activity index, – which has a stronger correlation with economic growth than the overall index – rose to a very solid 56.5. The worst news was that the employment index fell to 50.1 from 52.0. This fits in with the slightly weaker numbers that we saw in the ADP employment report earlier today and fits with our forecast of a moderate 153,000 gain in nonfarm payrolls in May. The ISM surveys can sometime reflect the vagaries of business sentiment rather than actual levels of service sector output. Pessimistic analysts have been touting the end of the payroll tax cut and the federal spending sequester as reasons to expect weaker economic growth. But the truth, from looking at the data over the past few months, is little to no significant impact from these events on the consumer or economy and we do not think there will be. We have yet to see any data that pushes us off our forecast that the US economy will grow in the 2.5% to 3% range in 2013. On the inflation front, the prices paid index fell to 51.1. Right now, inflation is not a problem. But monetary policy is very loose and we still expect it to be a gradually growing problem over the next few years.

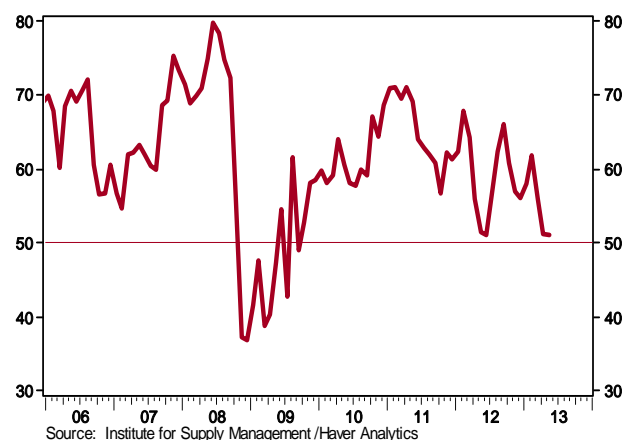
ISM Nonmanufacturing: NMI Composite Index

SA, 50+=Increasing



ISM: Nonmfg: Prices Index

SA, 50+ = Econ Expand



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	May-13	Apr-13	Mar-13	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	53.7	53.1	54.4	53.7	54.7	54.1
Business Activity	56.5	55.0	56.5	56.0	57.0	56.0
New Orders	56.0	54.5	54.6	55.0	56.0	55.6
Employment	50.1	52.0	53.3	51.8	54.2	51.8
Supplier Deliveries (NSA)	52.0	51.0	53.0	52.0	51.4	53.0
Prices	51.1	51.2	55.9	52.7	55.7	51.4

Source: Institute for Supply Management