

US ISM-Services Plays To The 'V' Camp

- US ISM-services rebounded to pre-shutdown levels
- The rise in overall activity is the strongest since 2004
- New orders and order backlogs expanded
- Jobs improved

US ISM-services, diffusion index, %, June:

Actual: 57.1

Consensus: 50.2

Prior: 45.4

The US service sector is ripping back at a much quicker than anticipated pace. This is a fresh reading given that most responses to each month's ISM survey tend to arrive toward the end of the month. That point shouldn't be lost in that the majority of these more favourable responses were skewed toward late June when covid-19 cases were already rising across the US south in particular.

The service sector has definitely experienced a v-shaped rebound from the initial covid-19 shock as shown in chart 1 that plots the headline readings for both the ISM-services and the prior ISM-manufacturing gauges. We're back at readings in February before the shutdowns. July's reading could easily be stronger as reopening momentum is imperfect, occurring in fits and starts across some states, but nevertheless ongoing both at home and abroad for exporters.

Across components, the momentum continues to favour production-oriented readings over generally lagging employment. Overall business activity climbed to 66 which is the highest reading since January 2004.

New orders jumped to 61.6 for a twenty point rise to the highest reading since February (chart 2). New export orders jumped by over twenty-seven points to 58.9.

Encouragingly, the order backlog also gained to 51.9 (46.4 prior).

The employment subindex improved, but continues to show contraction at a 43.1 reading (31.8 prior) which works against the nonfarm and household survey readings. This is not a great advance indicator of job growth, however, so place most of the emphasis upon direction over magnitude.

Inventory sentiment remains too high on balance across industries.

Prices paid also increased to 62.4 (55.6 prior) indicating a faster rate of increase in input prices.

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Chart 1



Chart 2

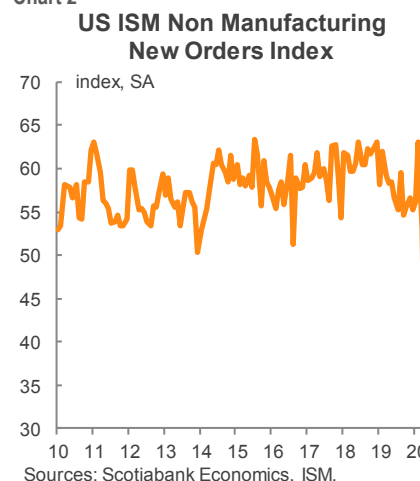
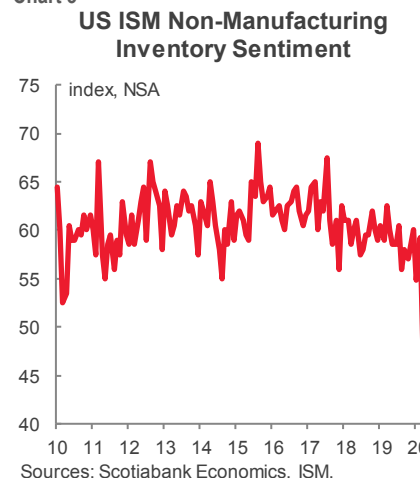


Chart 3



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