

Economic Indicator — August 5, 2024

## Service Sector Activity Returns to Expansion in July

### Summary

At a moment when global financial markets are selling off over concerns that the U.S. economy could be on thin ice, the ISM services index is a reminder that service-sector activity remains robust. The ISM Services Index rose back into expansion at 51.4 in July.

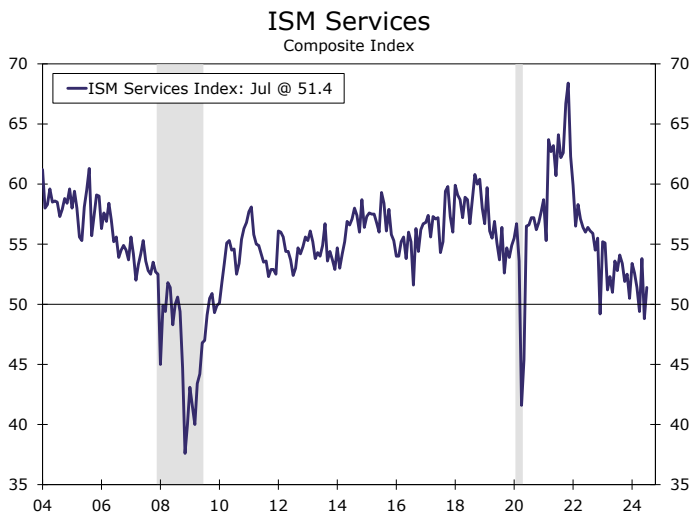
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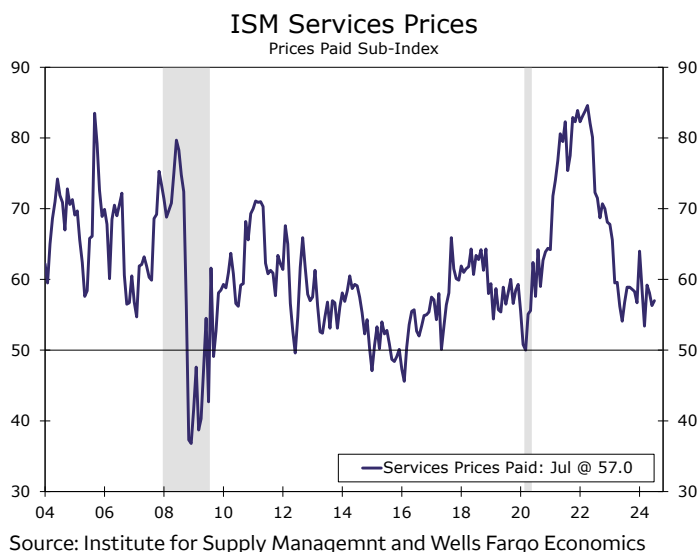
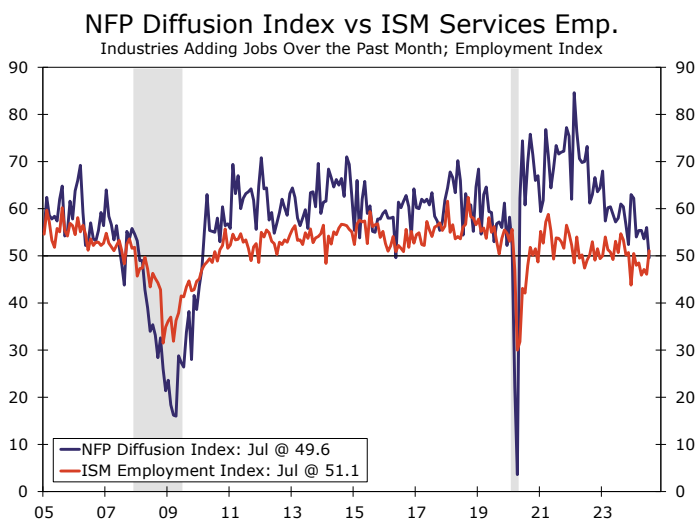
Source: Institute for Supply Management and Wells Fargo Economics

## Service-Sector Resilience Intact?

Whereas last Friday's jobs report pointed to an economy that could be slipping into recession, today's report shows the opposite. The headline index, the business activity index and four sub-components (new orders, order backlogs, employment and imports) all moved from contraction into expansion territory. In short: service sector activity regained its footing in July.

To some extent, it was not the weakness in last Friday's jobs [report](#) that was so surprising as much as it was the strength in hiring reported in the prior months. That is tough to square with the fact that the employment component of the ISM services index was below 50 for the five straight months leading into July. At first pass the employment component of the ISM looks out of step with the moderation evident in total hiring on Friday—the ISM services employment component did rebound in July to 51.1, or the highest reading since September.

While this indicator has not been a great signal for actual hiring data this cycle, it's still consistent with the moderation we're seeing in the jobs market. Even as the employment component rose back into expansion, only eight of 18 industries reported an increase in hiring last month, which is in line with the slower breadth of hiring reported elsewhere. Consider the broad diffusion metric of hiring has showed a slowing trend for the past two years ([chart](#)).



## A Less Intense Focus on Price Stability

The prices index rose to 57.0 in July from 56.3 in June ([chart](#)). In adjusting our fed funds [forecast](#) over the weekend we observed how the FOMC has been focused almost entirely on bringing inflation back to its 2% target, an endeavor that has largely been successful. At last week's FOMC meeting, the statement observed how the Committee is now "attentive to risks to both sides of its dual mandate" (i.e., "price stability" and "full employment") rather than only emphasizing the "price stability" part of its mandate.

Renewed attention on the labor market notwithstanding, we think that an under-appreciated factor amid all the worry about the health of the economy is that households just keep finding ways to sustain spending. The labor market may be losing momentum, but in the latest personal income and spending [report](#) we learned that real services outlays grew 0.2% in June, the fastest pace in four months. While most of the spending on services goes toward non-discretionary categories such as healthcare and housing, consumers are still spending in other categories too. Real services spending less healthcare and housing rose *more* than broad services, up 0.24%.

Still, given the redirected focus on the labor market, the modestly higher July reading for ISM service prices does not present a significant impediment to Fed easing later this year.

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