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Data Release: ISM non-manufacturing surprises to the upside in April

- The Institute of Supply Management (ISM) non-manufacturing index rose by 1.3 points to 57.8 in April, well above the median consensus forecast which called for a modest pullback to 56.2.
- The underlying details of the report were constructive, with business activity (+4.1 points to 61.6), new-orders (+1.4 points to 59.2) and employment (+0.1 points to 56.7) all notching gains on the month.
- The prices paid sub-component fell by 2.3 points, falling to 50.1 – a touch above the expansionary threshold of 50.
- Of the 18 industries surveyed, 14 reported expanding on the month, while only 4 (mining; other services; professional, scientific & technical services; and information) reported contracting.

Key Implications

- Finally some good news on the economy. This morning's ISM release stands in contrast to the string of weak economic data seen through much of April and reverses the pullback experienced over the two previous months. Relative to this time last year, the index is up 4.5%.
- Beyond the headline reading, the details of the report were also positive. The forward looking new-orders sub-component notched a decent gain, with all but three business's surveyed (one of which was mining) reporting increased demand on the month. Business activity also saw a marked bounce back, with many business owners reporting improved weather/reduced fuel costs as supportive factors. These are both encouraging signs, as it provides evidence that at least some of the recent headwinds weighing on U.S. growth are starting to lift.
- The gain in the employment sub-component was also nice to see, especially after its manufacturing counterpart dipped into contractionary territory in April. Moreover, the fact that this morning's gain – albeit small – comes on top of an already elevated level, and at a time when jobless claims have reached a 15-year low, provides some upside risk to Friday's non-farm payrolls report.

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