

# Surprise shrinkage in service sector

---

## Quells notion of rapid recovery

By David M. Dickson THE WASHINGTON TIMES | Thursday, August 6, 2009

The service sector, which makes up nearly 90 percent of the U.S. economy, unexpectedly contracted at a faster rate in July than in June, indicating that economic activity continued to decline last month despite a raft of revised forecasts that now project a stronger recovery will begin during the third quarter.

The Institute for Supply Management (ISM) reported Wednesday that its non-manufacturing index declined to 46.4 last month from 47 in June. It was the first decrease since March. Readings below 50 indicate contraction, while readings above 50 represent expansion.

The report revealed that business activity, employment, order backlogs and new orders, including those for export, all shrank more in July than the previous month.

"The majority of respondents' comments reflect a sense of uncertainty and cautiousness about business conditions," said Anthony Nieves, the chairman of the ISM committee that produces the non-manufacturing index.

"The bottom line here is that the path from recession to recovery should not be expected to be smooth, and occasional setbacks should not be a surprise," said Brian Bethune, chief U.S. financial economist for IHS Global Insight. Describing the "pull back" in the services industry as "somewhat disturbing," Mr. Bethune said,

"It should quell any incipient notions of a rapid break-out in economic activity in the second half of 2009."

On Monday, the ISM reported that its manufacturing index jumped 4.1 points to 48.9, with subindexes for new orders and production reflecting growth.

Also on the manufacturing front, the Commerce Department reported Wednesday that factory orders increased again in June, indicating that the deepest downturn in manufacturing since the Great Depression may be reaching its bottom soon.

Factory orders rose 0.4 percent in June after jumping 1.1 percent in May. After removing transportation equipment such as autos and aircraft, whose orders tend to be volatile, bookings increased 2.3 percent in June after rising 0.9 percent in May.

"Momentum seems to have turned as orders have now increased four of the last five months," said Tim Quinlan, an economic analyst at Wells Fargo Securities. "While the increase in orders is encouraging, we do not expect production to come roaring back. The pipeline of unfilled orders is still getting smaller, which casts doubt on continued gains."

After the Commerce Department reported Friday that U.S. gross domestic product declined an unexpectedly modest 1 percent during the second quarter, economic forecasters began updating their projections for recovery.

T. Rowe Price raised its third-quarter growth forecast from 1.3 percent to 2.75 percent. UBS AG increased its estimate of growth this quarter to 2.5 percent from 2 percent.

"While we continue to expect recovery in the second half, we must emphasize its sluggish nature," Kim Whalen of Wells Fargo said after the ISM released its disappointing index numbers for the service sector. "This step back shows smooth seas remain distant," she said.

<http://www.washingtontimes.com/news/2009/aug/06/surprise-shrinkage-in-service-sector/>