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ISM Non-Manufacturing: Cloud passes?

The headline May ISM Non-Manufacturing index bounces partway back from its 4.5-point drop of last month, rising 1.6 points (Consensus: +1.2 points; Decision Economics: -1.3 points) to 54.6.

There were solid rebounds, to solid-expansion levels, in the important new orders (+4.1 points, to 56.8) and employment (+2.1 points, to 54.0) indexes, suggesting that the April shock--which did take the new orders index down 11.4 points from a stratospheric 64.1 level--has been absorbed, without dislodging the economy from a trend-plus growth path.

That is a reassuring performance from the service sector of the economy, which traditionally tends to hold to a trend path, with upside and downside swings seen only under relatively extreme circumstances.

The relatively extreme upside experience in the first quarter of the year seems to have been corrected by the confidence shocks from petroleum product prices and the Japanese disasters, without the service-sector economy more than briefly dipping below trend.

That picture combines with the very solid manufacturing-output performance implicit in the payroll employment numbers to suggest that the overall economy is heading back up to trend too. Of course, the Fed needs to see more proof--but the natural data-smoothing tendency of the organization probably prevented any extreme reaction to recent poor numbers anyway.

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