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Wednesday Preview

On tap today are the ADP estimate of July private payroll employment, at 8:15 EDT/12:15 GMT, the July ISM Non-Manufacturing survey, at 10:00 EDT/14:00 GMT, and the June factory orders data, also at 10:00 EDT/14:00 GMT.

The ADP private employment estimate proved uncannily accurate in May, then quite off the mark in June in predicting the "official" employment number. As such, watching it because others are is perhaps more plausible a reason than as a clear read on the July jobs figure. Still, with markets focused on the deterioration in recent economic data, particularly decelerating employment and income growth, today's result will necessarily bear watching.

Expectations call for a relatively subdued +100K print, which will follow a likely-to-be-downwardly-revised +157K June reading. A weak-side print will perhaps be more believable to markets, helping to cement payroll forecasts in the mid-to-lower end of the current 50-150K range, and corroborate the marked softening seen in the ISM's employment index.
A strong result would probably be discounted in light of other downbeat data, with many market participants less than willing to put weight on a shaky branch.

In that sense, today's number could be in keeping with the adage that "you can't win a golf tournament on the first day, but you can lose it."

In a similar vein, the July ISM Non-manufacturing survey will be important given clear weakening in the manufacturing report earlier this week. Both surveys are holding in expansion territory, albeit "just" (50.9) in the case of the Manufacturing report.

Published expectations call for a slight firming (Consensus: +0.4 points to 53.7; Decision Economics: +0.5 points), though there is quite likely a gap between that sort of print and what has recently been priced in. An in-line print, or even slight decline, should help to support notions that growth is not shifting to outright decline. Nevertheless, the low 50s represent a number well below that typically seen in expansions, and is more indicative of recession-like, or very weak recovery trends.

As always, the composition of moves in the underlying sub-indices will be of great interest. The new orders component has declined from the mid-60s earlier this year to 53.6 in June, while the employment index has thus far been reasonably firm in a historical sense, and holding above 54 in May and June. Willingness to hire is a clear expression of confidence, so stability in the employment component would give support to those betting on a firmer resumption of activity in the second half.

Finally, factory orders data for June will reflect the impact of a drop in durable goods orders, that figure released last week, (-2.1% month on month). That was largely a result of commercial aircraft, the overall ex-defense, ex-air total declining only 0.3%. Soft demand indications are corroborated by the ISM manufacturing orders index, which slipped below 50 in July. In that sense, no major shifts in the outlook may come with this report.

Firmer non-durables orders are implicit in today's headline factory orders forecasts (Consensus: -0.7% m/m; Decision Economics: -0.8%), which will also reflect any revisions to the durables figures.

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