

USA: ADP Employment, ISM Services Below Expectations; S&P Services PMI Revised Up; Lowering Payroll Growth Forecast to +110k

BOTTOM LINE: According to the ADP report, private sector employment increased by 37k in May, below expectations, and employment in April was revised down. The ISM services index declined by more than consensus expectations in May. In the ISM services press release, respondents highlighted that the tariffs had led to cost increases in their industries. The S&P Global services PMI was revised up from the preliminary reading in May. We believe this morning's data signals downside risk to Friday's employment report on net. We have lowered our forecast for nonfarm payroll growth by 15k to +110k, below consensus of +126k.

US MAP:

ADP -6 (3, -2)

ISM services -3 (3, -1)

KEY NUMBERS:

ADP employment +37k for May vs. GS +115k, median forecast +114k, prior revised +60k

ISM services 49.9 for May vs. GS 49.8, median forecast 52.0, prior 51.6

S&P Global US services PMI 53.7 for May (final) vs. median forecast 52.3, prior 52.3

MAIN POINTS:

1. According to the ADP report, private sector employment rose by 37k in May (month-over-month, seasonally adjusted), following a downwardly revised April increase (-2k to +60k). Employment in the services sector rose 36k, reflecting a 38k increase in leisure and hospitality and a 20k increase in financial services. Employment in goods-producing industries declined by 2k, reflecting a 6k increase in construction employment but a 5k decline in natural resources and mining employment. Median annual pay for job stayers increased 4.5% year-over-year in May, unchanged from the April pace.

2. The ISM services index declined by 1.7pt to 49.9, below consensus expectations. The composition of the report was mixed, however, as the business activity (-3.7pt to 50.0) and new orders (-5.9pt to 46.4) components declined, while the employment component increased (+1.7pt to 50.7). The supplier deliveries component increased by 1.2pt to 52.5, indicating faster supplier delivery performance. The new export orders index edged down by 0.1pt to 48.5 (NSA), while

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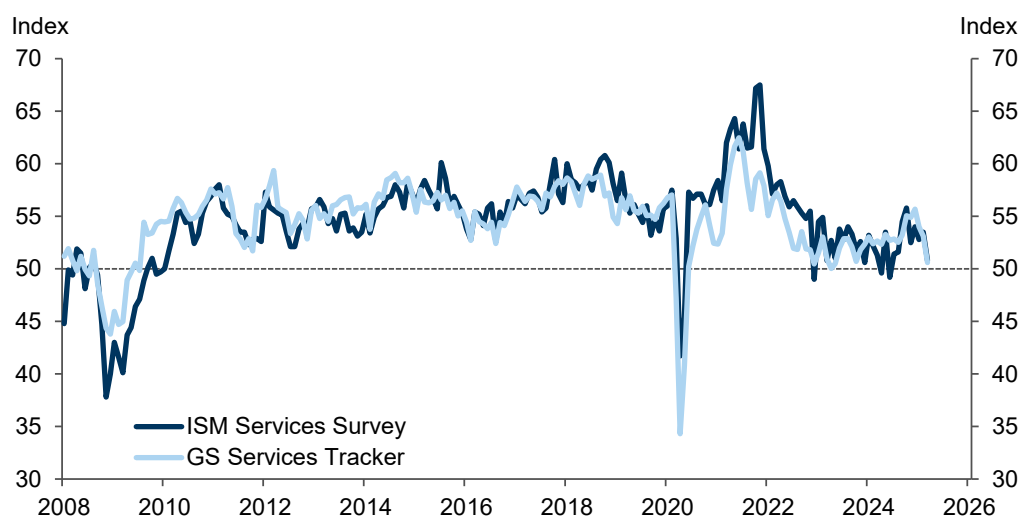
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the imports index increased by 3.9pt to 48.2 (NSA). The prices paid measure increased by 3.6pt to 68.7 (SA). There were 14 mentions of tariffs in the May press release, compared to 13 in April and 5 in January. Respondents highlighted that “tariffs have increased the cost of doing business” and “tariff variability has thrown residential construction supply chains into chaos.”

3. The S&P Global US services PMI was revised up by 1.4pt to 53.7 in the May reading. The new business (+0.9pt to 53.2) and employment (+2.4pt to 51.8) components were both revised up.

4. After today’s data releases, our services survey tracker stands at 50.3 in May (vs. 49.3 in April), and our services employment tracker stands at 48.6 in May (vs. 48.4 in April).

5. We view this morning’s data as negative on net for Friday’s employment report. While the employment component of the ISM services index improved, it remained at a weak level and the ADP measure of job growth was much weaker than expected. We have lowered our forecast for nonfarm payroll growth by 15k to +110k, below consensus of +126k.



Source: Institute for Supply Management, Federal Reserve, Goldman Sachs Global Investment Research

Disclosure Appendix

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