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New orders prompt jump in service sector

Service expansion bodes well for economy in second half of year

By Martin Crutsinger
Associated Press

WASHINGTON — U.S. service firms expanded in July at the fastest pace since February, fueled by a brisker month of sales and a jump in new orders. The increase suggests economic growth could be picking up after a weak first half of the year.

The Institute for Supply Management said Monday that its index of service-sector growth rose in July to 56.0, up from 52.2 in June. Any reading above 50 indicates expansion.

The survey covers businesses that employ 90 percent of the workforce, such as retail, construction, health care and financial services.

A measure of business activity, which includes current sales, rose to 60.4. That's the highest since December and was driven in part by faster home construction. And a gauge of new orders, which indicates sales over the next few months, increased to 57.7 — a five-month high.

Jennifer Lee, senior economist at BMO Capital Markets, noted that 16 of the 18 industries surveyed reported growth in July, "encouraging news for the broader U.S. economy."

Paul Dales, senior U.S. economist at Capital Economics, said the July gains in the service sector, along with a solid month of manufacturing growth, suggest the economy is growing at an annual rate of 3 percent in the July-September quarter. That's nearly double the rate in the April-June quarter.

Growth in the service industry depends largely on consumers, whose spending drives roughly 70 percent of economic activity. On Friday, the government said consumers increased their spending in June at the fastest pace in four months.