July 6, 2026

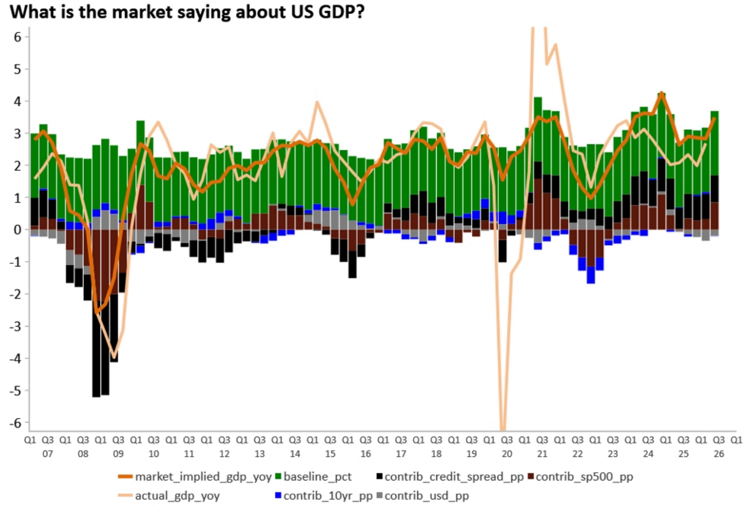
Dutta's Economic Daily

Services growth cools as hiring rebounds

Markets pricing strong US GDP

- What is the financial market pricing in for US GDP growth? Roughly 3.5 percent, according to our calculations. We take changes in the S&P500, credit spreads, 10Y yields, and the broad USD exchange rate to estimate GDP growth. In short, tight credit spreads and rising share prices are implying a stronger economic growth backdrop.

What is the market saying about US GDP?



Source: Renaissance Macro Research, Macrobond

- Despite the GDP backdrop implied by financial markets, actual US GDP growth has been no great shakes. Over the last two quarters, US real GDP has advanced by just 1.3 percent SAAR. The Atlanta Fed GDPNow is bean-counting growth of 1.2 percent in Q2. Private domestic demand is running close to 2.0 percent over this period.

- In short, there is a bit of a disconnect between what financial markets are pricing in for US economic growth and actual economic growth. To get onsides, we need to see growth pickup in H2. That seems difficult given the fading support to consumers’ spending from tax refunds and pending fiscal squeeze. Alternatively, we see some let-up in share prices and some widening in credit spreads.

German factory orders rebound on bulk transport contracts

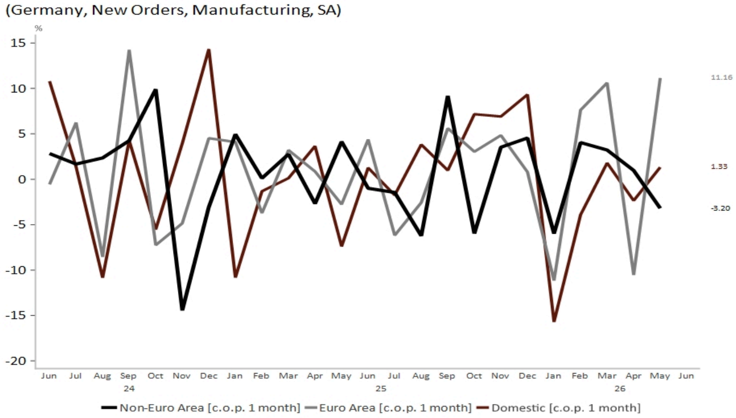
- German manufacturing orders rebounded 1.9% in May, reversing part of April's decline (revised to -3.2% from an initial -3.8%) and running 6.2% above year-ago levels. Stripping out bulk orders, the gain was a steadier 1.0%. The rebound was heavily concentrated: the volatile "other transport equipment" category (aircraft, ships, trains, military vehicles) surged 85.0% on a handful of large contracts, doing most of the heavy lifting. Machinery (+3.7%) and electrical equipment (+5.7%) added support, while the automotive sector (-3.8%) and computer, electronic and optical products (-7.8%) pulled the other way. The smoother three-month comparison stayed slightly negative at -0.2%, though it firmed to +4.1% once large orders are excluded—suggesting underlying demand is improving even as the headline swings on lumpy contracts.

Ex-large-scale orders outpace a soft headline trend
(Germany, New Orders, Manufacturing, SA)

Source: Renaissance Macro Research, Macrobond

- By category, capital goods led with a 2.2% gain, ahead of consumer goods (+2.4%) and intermediate goods (+1.4%). The demand split was notable: foreign orders rose 2.2%, but entirely on euro-area strength (+11.2%), which masked a 3.2% drop in orders from outside the bloc. Domestic orders advanced a more modest 1.3%. Manufacturing turnover rose 1.8% on the month and 4.2% on the year, with April's flat reading (+0.1%) confirmed on revision.

Euro-area demand drives the foreign orders rebound
(Germany, New Orders, Manufacturing, SA)



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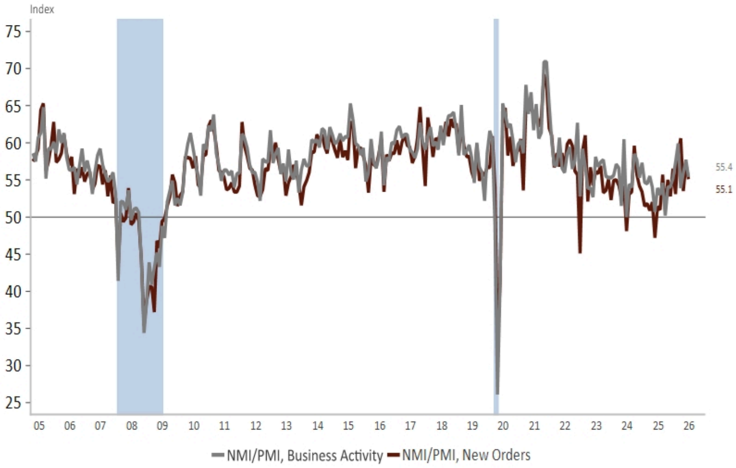
Services demand loses momentum but stay in expansion



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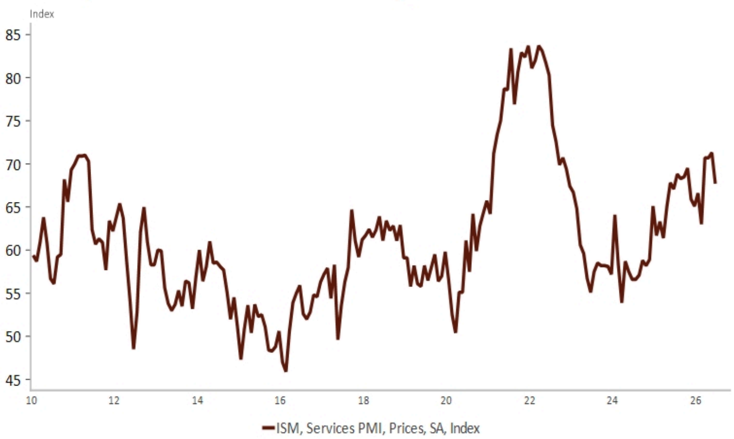
Services prices retreat from their recent high



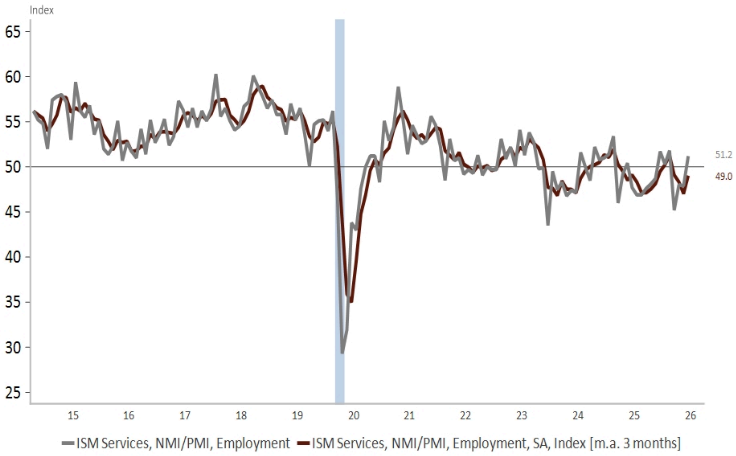
Source: Renaissance Macro Research, Macrobond

Services PMI eases while employment turns up

- The ISM Services PMI slipped 0.5 point to 54.0 in June, in line with expectations and extending expansion to a 24th straight month. The softer headline reflected a shift in composition more than lost momentum, with the drag concentrated on the output and demand side: Business Activity fell 2.3 points to 55.4 and New Orders eased 2.2 points to 55.1, though the latter still marked a 13th consecutive month of growth. Supplier Deliveries slowed marginally (54.4 from 55.2), while Inventories collapsed 11.3 points to 51.2, unwinding May's surge and signaling that the earlier buy-ahead push against tariff and war-related disruptions has largely run its course. Backlogs, by contrast, jumped 3.6 points to 54.9, the highest since February and near a four-year peak, and export orders edged up to 50.4.

- Price pressures eased more than the still-elevated level implies. The Prices Index fell 3.6 points to 67.7, a four-month low and its first sub-70 print since February, even as it has now risen for 109 consecutive months and held above 60 for 19. Imports, meanwhile, slipped into contraction at 49.4 for the first time in five months.

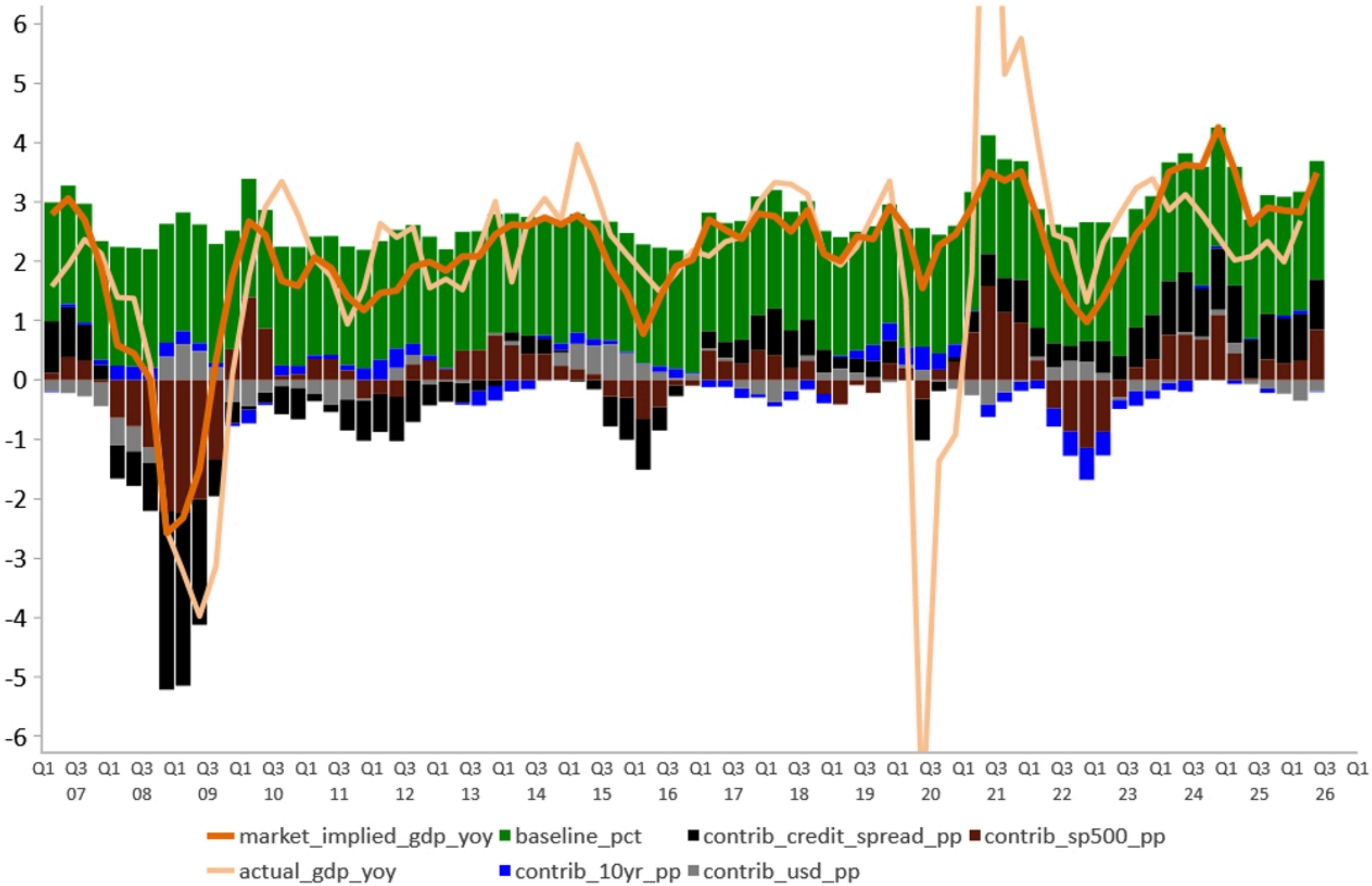
Hiring rebounds to its first expansion in four months



Source: Renaissance Macro Research, Macrobond

- The clear offset was hiring. The Employment Index rose 3.3 points to 51.2, its biggest jump since 2024 and first expansion in four months after a three-month contraction, running 2.5 points above its 12-month average. Nine of 18 services industries, representing more than 58% of GDP, added workers, pointing to fairly broad-based confidence that staffing needs to catch up with activity levels; World Cup-related hiring likely flattered the figure. The signal cuts both ways, however. The June reading is consistent with real GDP expanding about 1.9% annualized, and if the economy is growing barely two percent while firms still feel compelled to add labor this aggressively, the hoped-for productivity boom plainly isn't materializing — which means someone is absorbing the cost. That tension, more than the modest headline dip, is the more interesting takeaway.

What is the market saying about US GDP?



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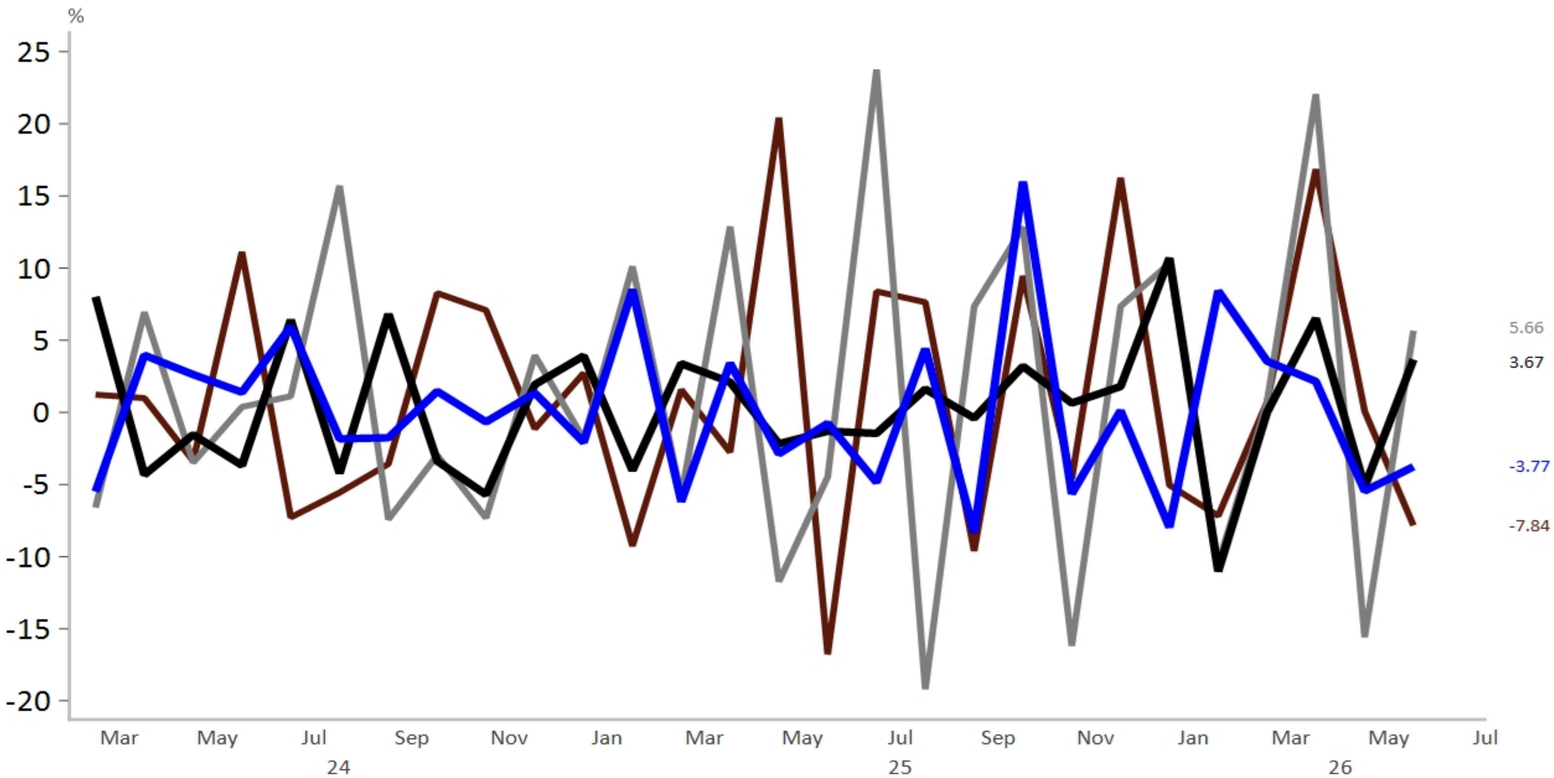
Electrical and machinery gains offset auto and tech weakness

(Germany, New Orders, Manufacturing, SA)



Manufacture of Motor Vehicles, Trailers, Semi-Trailers [c.o.p. 1 month]
Manufacture of Machinery & Equipment N.E.C. [c.o.p. 1 month]
Manufacture of Electrical Equipment [c.o.p. 1 month]
Manufacture of Computer, Electronic & Optical Products [c.o.p. 1 month]

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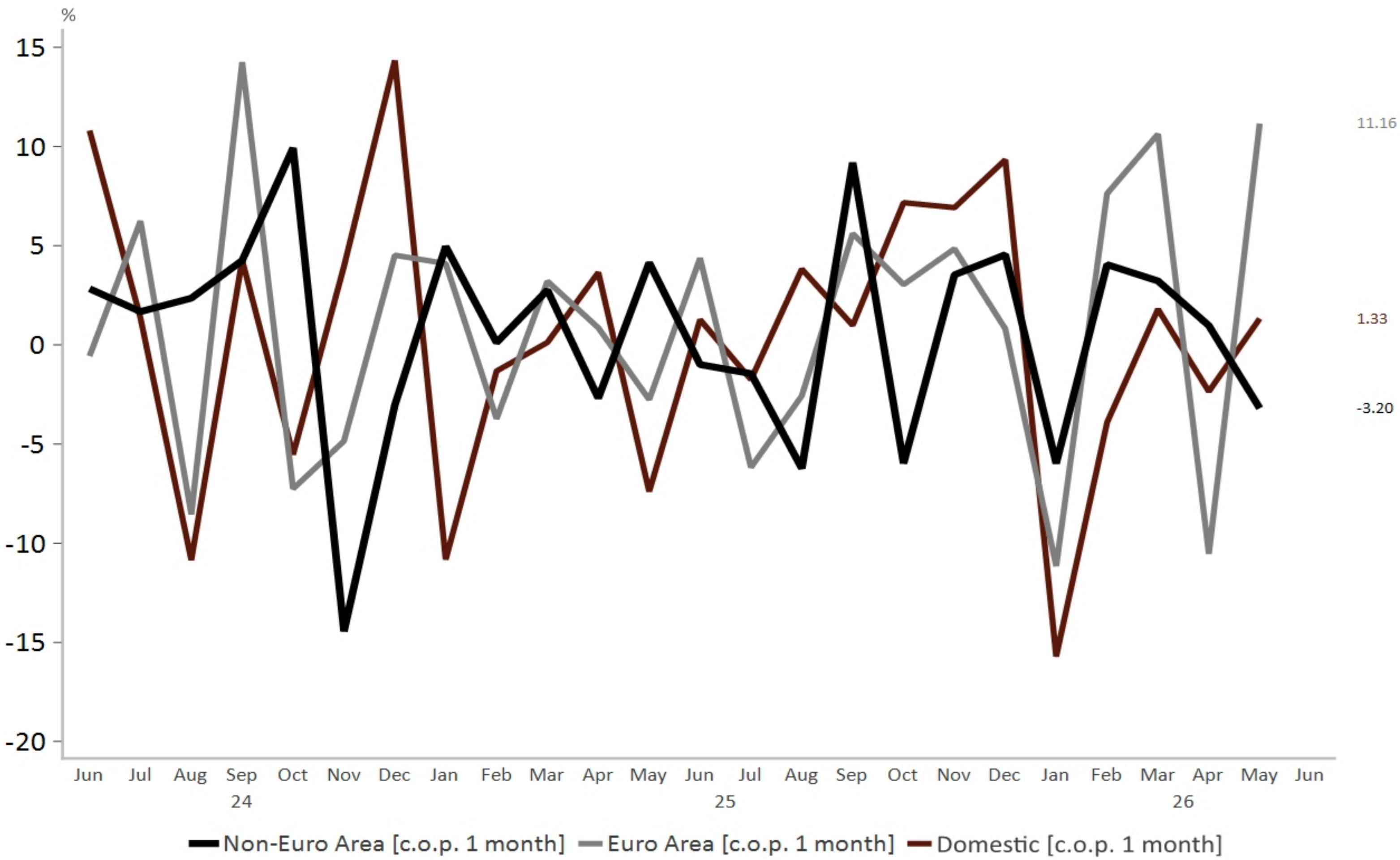

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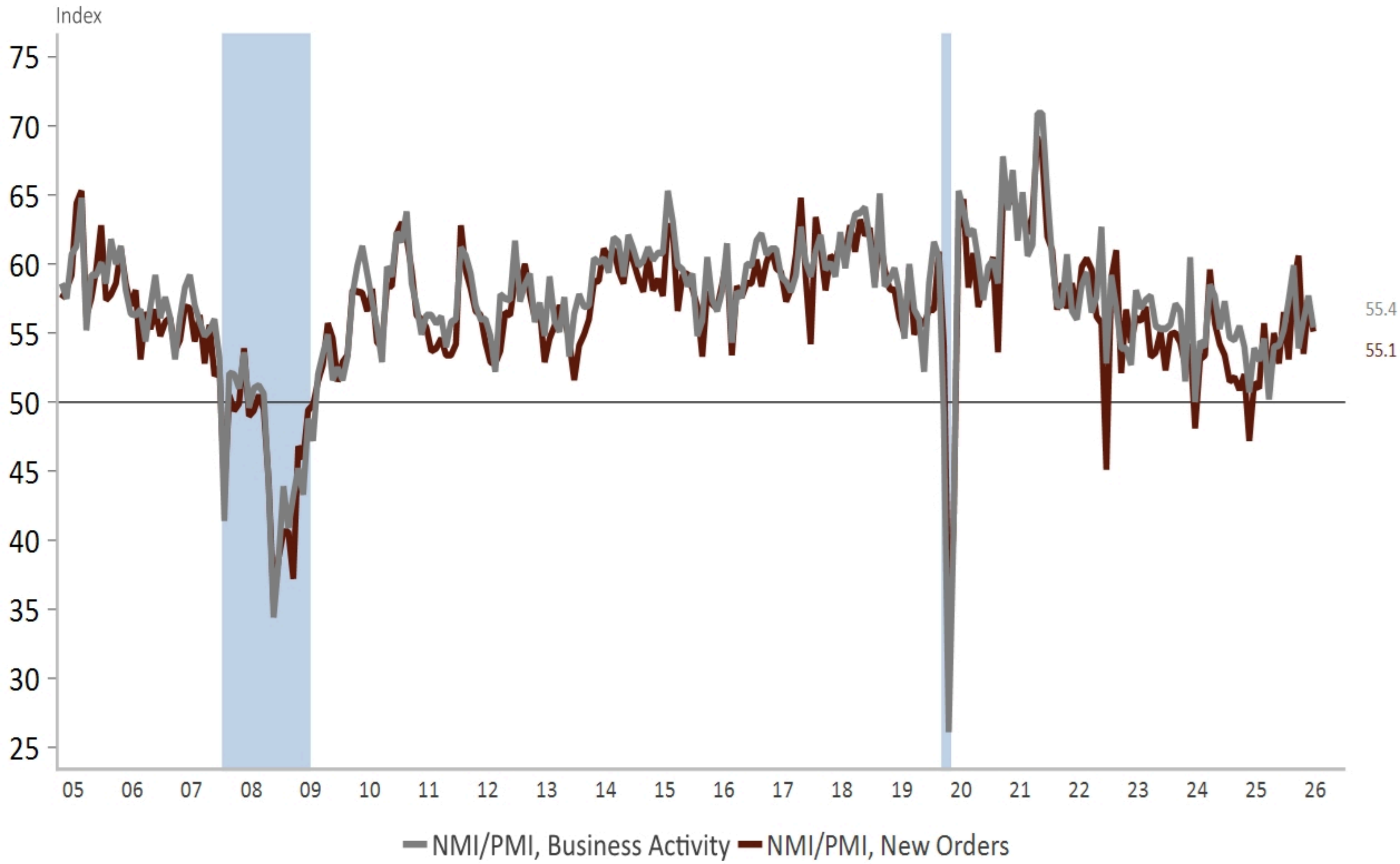

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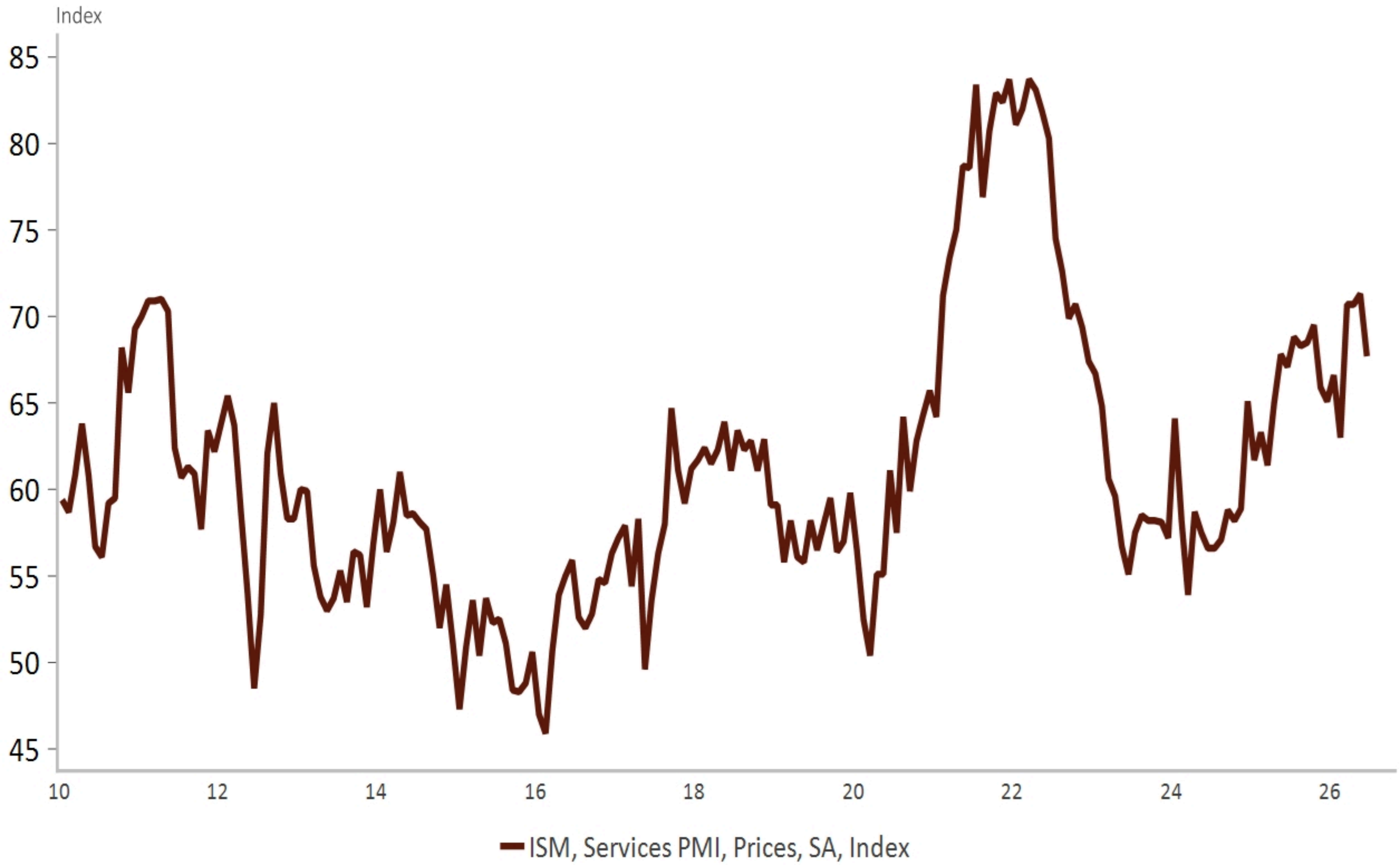

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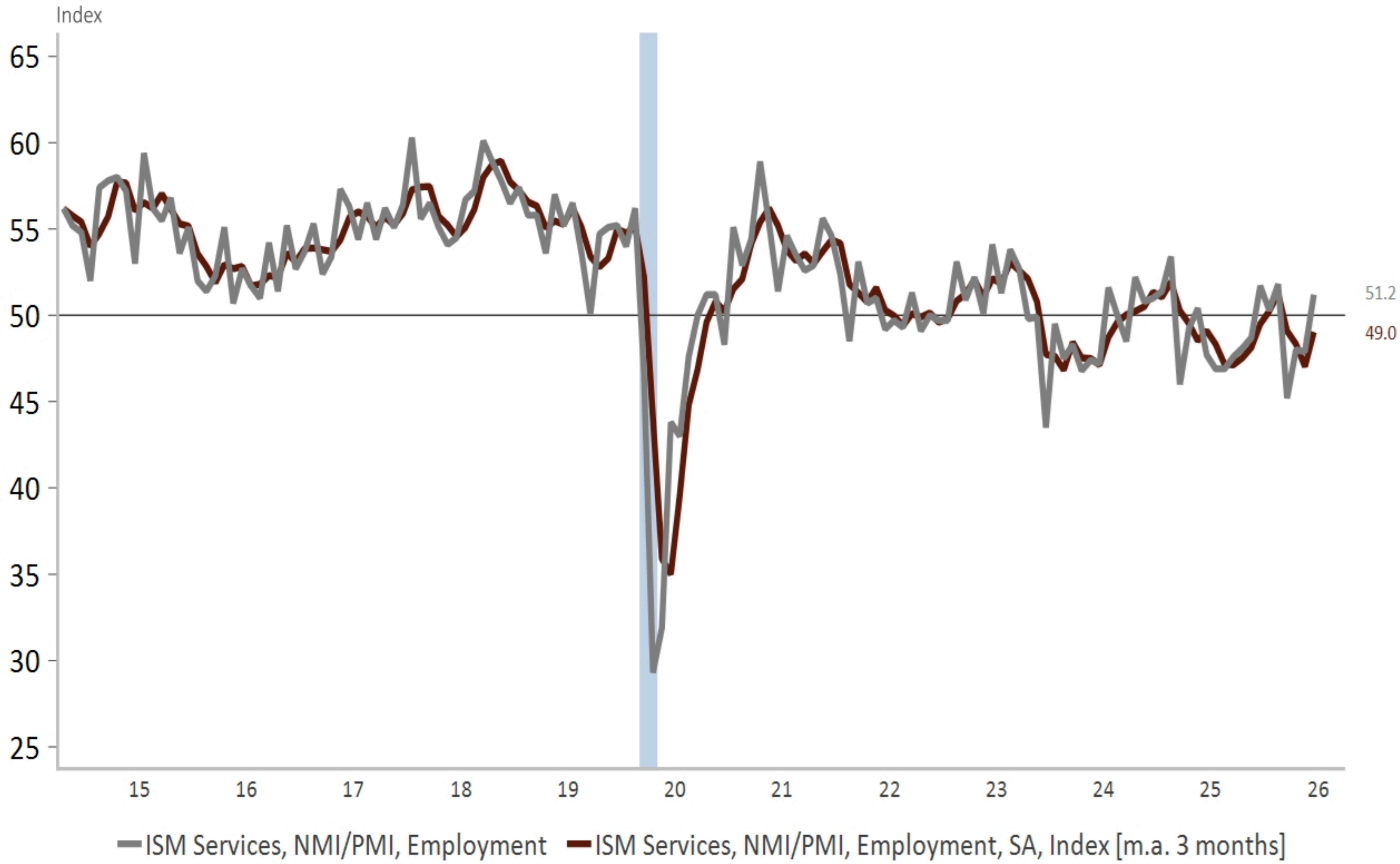

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