

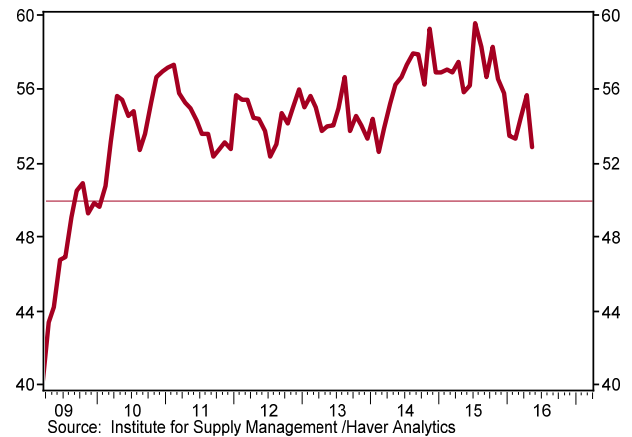
May ISM Non-Manufacturing Index

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- The ISM non-manufacturing index fell to 52.9 in May from 55.7 in April, coming in below the consensus expected 55.3. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in May, but most remain above 50, signaling expansion. The new orders index fell to 54.2 from 59.9 while the business activity index declined to 55.1 from 58.8 in April. The employment index dropped to 49.7 from 53.0. The supplier deliveries index rose to 52.5 from 51.0.
- The prices paid index increased to 55.6 in May from 53.4 in April.

Implications: Service sector activity continued to grow in May, as fourteen of eighteen industries surveyed by the ISM reported expansion, while just four - including mining and educational services - reported contraction. Yes, the pace of growth slowed from April, but overall activity expanded in the service sector for a 76th consecutive month, and continued strength in both new orders and business activity show positive signs for the months ahead. And while both the new orders and business activities indexes declined in May, both remain comfortably above 50, signaling continued expansion. Taken together, growth prospects remain positive with no sign of a looming recession. In line with this morning's disappointing jobs report, the employment index fell to 49.7 in May, despite eleven of eighteen industries reporting rising employment (six reported reductions). Given the sustained activity in new orders and business activity, we expect the employment index to return to levels above 50 in the months ahead. On the inflation front, the prices paid index rose for a second consecutive month, with rising prices for fuels and paper products more than offsetting declines in prices for beef, eggs, and metals. Rising energy prices have pushed the major inflation indicators higher in recent months, led by the recovery in oil prices. Even if oil prices level out rather than continue the march higher, inflation will approach the Fed's 2% inflation target faster than many market participants are expecting. As a whole, today's ISM report shows a continuation of Plow Horse growth. It's modest growth, but growth nonetheless.

ISM Nonmanufacturing: NMI Composite Index
 SA, 50+=Increasing



ISM Nonmanufacturing: Prices Index
 SA, 50+ = Economy Expanding



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	May-16	Apr-16	Mar-16	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	52.9	55.7	54.5	54.4	54.3	55.9
Business Activity	55.1	58.8	59.8	57.9	57.5	59.9
New Orders	54.2	59.9	56.7	56.9	57.0	58.0
Employment	49.7	53.0	50.3	51.0	51.9	55.8
Supplier Deliveries (NSA)	52.5	51.0	51.0	51.5	50.8	50.0
Prices	55.6	53.4	49.1	52.7	50.2	54.0

Source: Institute for Supply Management