

April ISM Manufacturing Index

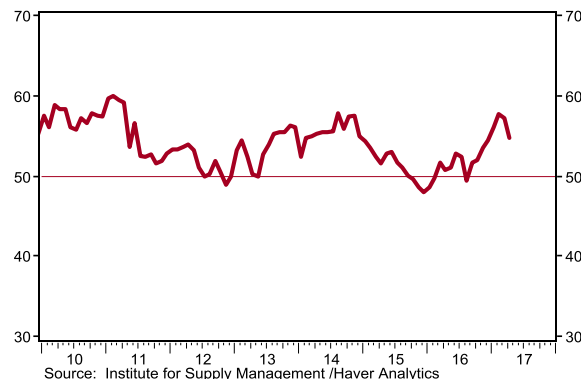
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- The ISM manufacturing index declined to 54.8 in April, coming in below the consensus expected 56.5. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in April, but all stand above 50, signaling growth. The new orders index declined to 57.5 from 64.5 in March, while the employment index fell to 52.0 from 58.9. The supplier deliveries index slipped to 55.1 from 55.9. The production index rose to 58.6 from 57.6 in March.
- The prices paid index declined to 68.5 in April from 70.5 in March.

Implications: Don't fret the headline reading. Manufacturing activity continued to rise in April, just at a slower pace than in March. And growth remained broad based, with sixteen of eighteen industries reporting growth, while just one reported decline. A look at the major measures of activity shows expansion continued across the board, with all measures remaining above 50. The new orders index showed the largest slowdown in expansion in April, falling to 57.5 from 64.5. But it should be remembered that February and March were the highest readings for new orders in more than three years, and the April reading of 57.5 remains well above the 55.5 average for the new orders index over the past five years. Meanwhile production activity rose in April to 58.6 from 57.6 in March. With these two forward looking indices continuing to show healthy growth, expect the manufacturing recovery to continue as well. The employment index fell to 52.0 in April, coming off March's strongest monthly reading going back to mid-2011. That said, and as we note regardless of the direction the employment index moves in any given month, manufacturing remains a small portion of total employment. For a better picture of labor market health, we tend to focus on broader signals (initial claims, earnings growth, and consumer spending) which have shown constant strength in recent years despite some turbulent times for the manufacturing sector. On the inflation front, the prices paid index slipped to 68.5 from 70.5 in March, despite twenty commodities rising in price and not a single commodity reported lower. Any suggestion that the trend in rising prices have just been a reflection of the rebound in oil prices misses the mark.

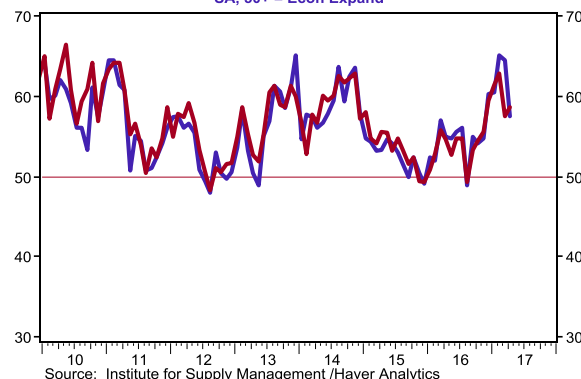
Rising economic activity, the lagged effect of loose monetary policy, is putting pressure on a wide variety of inputs, and putting pressure on the Fed not to fall behind the curve in raising rates that are too low for the current environment. In other economic news this morning, construction spending declined 0.2% in March, as a pickup in homebuilding was more than offset by declines in spending on education and commercial projects. However, construction was revised up for prior months and so it now looks like real GDP grew at a 0.8% annual rate in Q1, not the 0.7% reported Friday.

ISM Mfg: PMI Composite Index
 SA, 50+ = Econ Expand



ISM Mfg: Production Index
 SA, 50+ = Econ Expand

ISM Mfg: New Orders Index
 SA, 50+ = Econ Expand



Institute for Supply Management Index	Apr-17	Mar-17	Feb-17	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
Business Barometer	54.8	57.2	57.7	56.6	55.6	50.7
New Orders	57.5	64.5	65.1	62.4	60.4	54.9
Production	58.6	57.6	62.9	59.7	59.3	54.6
Inventories	51.0	49.0	51.5	50.5	49.3	45.5
Employment	52.0	58.9	54.2	55.0	54.4	49.2
Supplier Deliveries	55.1	55.9	54.8	55.3	54.7	49.1
Order Backlog (NSA)	57.0	57.5	57.0	57.2	53.2	50.5
Prices Paid (NSA)	68.5	70.5	68.0	69.0	66.0	59.0
New Export Orders	59.5	59.0	55.0	57.8	56.0	52.5

Source: National Association of Purchasing Management