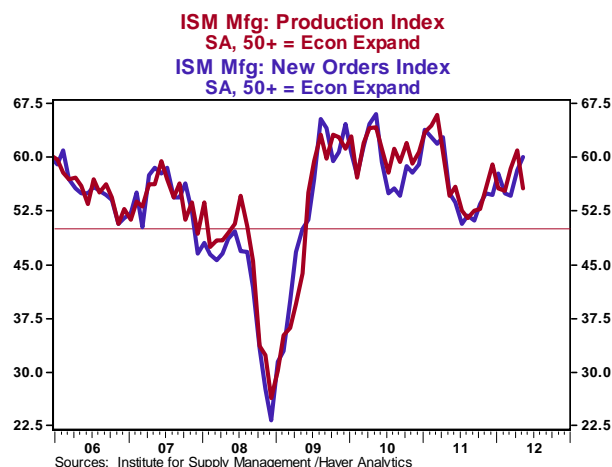
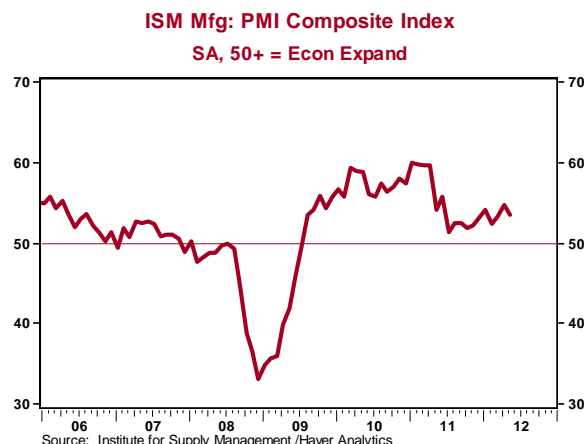


# May ISM Manufacturing Index

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- The ISM manufacturing index declined to 53.5 in May from 54.8 in April, coming in below the consensus expected 53.8. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- Most major measures of activity fell in May but most remain well above 50, signaling growth. The production index fell to 55.6 from 61.0 and the employment index declined to 56.9 from 57.3. The supplier deliveries index slipped to 48.7 from 49.2. The new orders index rose to 60.1 from 58.2.
- The prices paid index dropped to 47.5 in May from 61.0 in April.

**Implications:** The ISM manufacturing survey came in a little below consensus expectations for May, but at a healthy 53.5, has now been above 50 for 34 straight months. It's important to keep in mind that when financial strains, like recent news out of Europe, push down consumer confidence, it also often pushes down the ISM index as well. In other words, today's ISM index probably underestimates actual business activity in the factory sector. Regardless, the new orders index came in at 60.1, the highest in over a year, suggesting faster growth in production ahead. The employment index fell to 56.9 but still remains at elevated levels, a good sign for future manufacturing job gains. The index for inventories dropped once again to 48.7. The reluctance of manufacturers to accumulate inventories may hold back GDP in the short term, but we view this reluctance as temporary and indicative of better future growth. On the inflation front, the prices paid index dropped to 47.5 in May – which reflects rapidly falling energy and commodity prices, not general deflation. Given the loose stance of monetary policy, we don't expect this slowdown to last. In other news this morning, the Census Bureau reported construction spending increased 0.3% in April and an even stronger 1.6% including upward revisions to prior months. The gain in April itself was a combination of a 2.8% surge in home building partially offset by a 1.4% drop in government projects. Upward revisions for construction in February/March suggest real GDP growth in Q1 will be revised back up to the original estimate of 2.2%.



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	May-12	Apr-12	Mar-12	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Business Barometer</b>	53.5	54.8	53.4	53.9	53.6	54.2
<b>New Orders</b>	60.1	58.2	54.5	57.6	56.7	55.0
<b>Production</b>	55.6	61.0	58.3	58.3	57.5	54.6
<b>Inventories</b>	46.0	48.5	50.0	48.2	48.2	48.5
<b>Employment</b>	56.9	57.3	56.1	56.8	55.4	58.3
<b>Supplier Deliveries</b>	48.7	49.2	48.0	48.6	50.0	54.4
<b>Order Backlog (NSA)</b>	47.0	49.5	52.5	49.7	50.3	50.5
<b>Prices Paid (NSA)</b>	47.5	61.0	61.0	56.5	55.7	76.5
<b>New Export Orders</b>	53.5	59.0	54.0	55.5	55.7	55.0

Source: National Association of Purchasing Management