

May ISM Manufacturing Index

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- The ISM manufacturing index declined to 49.0 in May from 50.7 in April, coming in below the consensus expected 51.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all lower in May. The new orders index fell to 48.8 from 52.3 and the production index slipped to 48.6 from 53.5. The supplier deliveries index declined to 48.7 from 50.9 while the employment index slipped to 50.1 from 50.2.
- The prices paid index dropped to 49.5 in May from 50.0 in April.

Implications: Soft report on the factory sector this morning, as the ISM Manufacturing index for May came in below 50 (signaling contraction) for the first time since November and hit the lowest level since June 2009, just as the economy was starting to recover. This came as a surprise given the huge increase in the Chicago PMI index released Friday. According to the Institute for Supply Management, an index level of 49.0 is consistent with real GDP growth of 2.1% annually, which is close to the 2.5% rate we are still forecasting for Q2. Both the new orders and production indexes have slipped over the past three months, but we expect this recent trend to reverse over the second half of the year: auto sales are still trending upward and the housing recovery is not even half-way done. The employment index ticked down to 50.1 in May, the lowest level since November 2012, supporting our forecast that the manufacturing sector probably lost some jobs in May (we think 2,000). On the inflation front, the prices paid index declined to 49.5 in May from 50.0 in April. Given loose monetary policy, we expect inflation to gradually move higher from here. In other news this morning, construction increased 0.4% in April (0.5% including revisions to prior months), a little short of the consensus expected gain of 0.9%. Commercial construction led the way higher in April, mostly due to power plants. Today's data are certainly no justification for euphoria, but aren't a reason to panic either. What we have here is more data consistent with the Plow Horse economy.

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 | May-13 | Apr-13 | Mar-13 | 3-month moving avg | 6-month moving avg | Year-ago level |
|--|-------------|--------|--------|--------------------|--------------------|----------------|
| <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i> | | | | | | |
| Business Barometer | 49.0 | 50.7 | 51.3 | 50.3 | 51.4 | 52.5 |
| New Orders | 48.8 | 52.3 | 51.4 | 50.8 | 52.2 | 57.2 |
| Production | 48.6 | 53.5 | 52.2 | 51.4 | 53.0 | 54.1 |
| Inventories | 49.0 | 46.5 | 49.5 | 48.3 | 48.4 | 46.0 |
| Employment | 50.1 | 50.2 | 54.2 | 51.5 | 52.2 | 55.9 |
| Supplier Deliveries | 48.7 | 50.9 | 49.4 | 49.7 | 51.3 | 49.2 |
| Order Backlog (NSA) | 48.0 | 53.0 | 51.0 | 50.7 | 50.5 | 47.0 |
| Prices Paid (NSA) | 49.5 | 50.0 | 54.5 | 51.3 | 54.6 | 47.5 |
| New Export Orders | 51.0 | 54.0 | 56.0 | 53.7 | 52.8 | 53.5 |

Source: National Association of Purchasing Management