

# May ISM Manufacturing Index

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- The ISM manufacturing index rose to 51.3 in May, beating the consensus expected level of 50.3. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in May. The supplier deliveries index rose to 54.1 from 49.1 in April, while the employment index was unchanged. The production index declined to 52.6 from 54.2, and the new orders index dipped to 55.7 from 55.8 in April.
- The prices paid index rose to 63.5 in May from 59.0.

**Implications:** One more economic indicator giving a green light to the Fed for a June rate hike. The manufacturing sector showed expansion for a third consecutive month in May, with a modest pickup in the pace of growth from April. Orders remained strong while inventories continued to decline, suggesting room for a further pickup in the pace of growth in the months ahead. The two most forward looking measures, new orders and production, slowed somewhat in May, but remain comfortably above 50, signaling expansion. And growth isn't limited to a few select industries; fourteen of eighteen industries reported growth in new orders, while four, including petroleum and coal, reported declines. Production tells a similar tale, with twelve of eighteen industries reporting growth. Unfortunately, recent growth in manufacturing hasn't been reflected in rising employment in that sector. Manufacturing employment has declined by an average of 6,000 jobs per month in 2016, and we are forecasting that Friday's jobs report will show a further contraction of 8,000. But manufacturing represents just a small portion of total employment and productivity is growing. Meanwhile, total employment continues to expand at around a healthy 200,000 jobs per month clip. On the inflation front, the prices paid index jumped 4.5 points to 63.5 after surging 20.5 points in the prior two months. Rising energy and metal prices led thirteen of eighteen industries to report higher input costs. As a whole, today's data show manufacturing activity moving in the right direction. It isn't booming, but it should continue to plow forward at a modest pace. In other news this morning, construction declined 1.8% in April (however, positive revisions to prior months totaled 1.5% - this is a very volatile series). The decline in April itself was primarily due to housing, highways and streets, offset in part by a rise in spending on offices and public safety.

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



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

**ISM Mfg: New Orders Index**  
 SA, 30+ = Econ Expand



Institute for Supply Management Index	May-16	Apr-16	Mar-16	3-month moving avg	6-month moving avg	Year-ago level
<i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>						
<b>Business Barometer</b>	<b>51.3</b>	50.8	51.8	51.3	49.9	53.1
<b>New Orders</b>	<b>55.7</b>	55.8	58.3	56.6	53.6	55.6
<b>Production</b>	<b>52.6</b>	54.2	55.3	54.0	52.5	55.3
<b>Inventories</b>	<b>45.0</b>	45.5	47.0	45.8	44.9	51.5
<b>Employment</b>	<b>49.2</b>	49.2	48.1	48.8	48.2	52.1
<b>Supplier Deliveries</b>	<b>54.1</b>	49.1	50.2	51.1	50.5	50.9
<b>Order Backlog (NSA)</b>	<b>47.0</b>	50.5	51.0	49.5	46.8	53.5
<b>Prices Paid (NSA)</b>	<b>63.5</b>	59.0	51.5	58.0	46.6	49.5
<b>New Export Orders</b>	<b>52.5</b>	52.5	52.0	52.3	50.3	50.0

Source: National Association of Purchasing Management