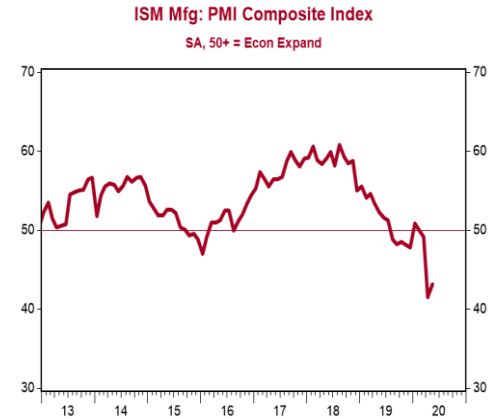


# May ISM Manufacturing Index

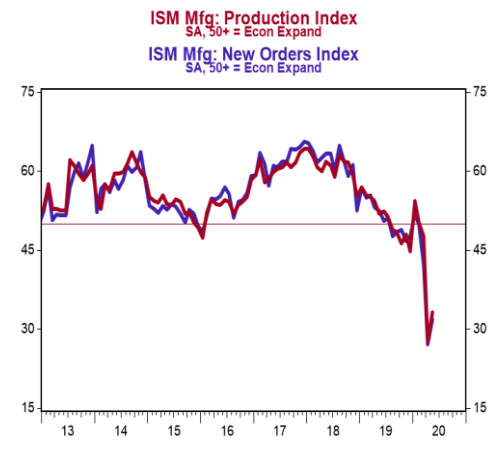
**Brian S. Wesbury** – Chief Economist  
**Robert Stein, CFA** – Dep. Chief Economist  
**Strider Elass** – Senior Economist

- The ISM Manufacturing Index rose to 43.1 in May, lagging the consensus expected 43.8. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in May. The production index rose to 33.2 from 27.5 in April, while the new orders index increased to 31.8 from 27.1. The employment index moved higher to 32.1 from 27.5. The supplier deliveries index declined to 68.0 from 76.0 in April.
- The prices paid index rose to 40.8 in May from 35.3 in April.

**Implications:** Baby steps. While the data remain ugly, the ISM manufacturing index for May suggests the factory sector was still shrinking but not as fast as in April. Coming off the lowest reading since early 2009 – and a month where virtually the entire country was in lockdown – the green shoots of May were a welcome sign of progress. That said, eleven of eighteen industries continued to report contraction in May, while six reported growth (one reported no change). And the comments from survey respondents remain cautious, but optimistic, peppered with words like “rebound” and “returning.” Some industries, such as transportation equipment, remain depressed, as social distancing measures at plants are slowing a return to production, while others, like food, beverage, and tobacco products, have seen a pickup in sales as consumers have shifted their purchasing habits during these unusual times. Looking at the major indices, the two most forward looking – new orders and production – both moved higher in May, but remain well in contraction territory. Employment, too, is following the “bad, but not as bad” path, rising to 32.1 in May from 27.5 in April. While there are still data due out later this week that may impact our forecast, we are projecting that Friday’s report on nonfarm payrolls will show a loss of 5.5 million jobs in May. An enormous number, no doubt, but less of a loss than the 20.5 million jobs lost in April. For more information on how the employment picture is providing insight into where we stand within this recession (and progress towards recovery) read this week’s [Monday Morning Outlook](#). The one sub-index that moved lower in May was supplier deliveries, which rises when companies have difficulty meeting demand on a timely basis, and moves lower as delays ease. The coronavirus and related shutdowns have wreaked havoc on supply chains, and that looks likely to continue resulting in delays in the weeks and months ahead. Watch for the supplier deliveries index to continue moving lower, but remain at elevated levels, as orders and production move back toward growth. On the inflation front, the prices paid index rose to 40.8 from 35.3 in April, as rising costs for energy, personal protective equipment, and alcohols pushed back against declining costs for steel and other metals. While these monthly reports provide valuable insight into the evolution of the virus impact, we continue to keep a pulse on what the high-frequency data tell us about activity evolving on a weekly basis. For tracking on those indicators, please watch our blog. In other news this morning, construction fell 2.9% in April (down 1.1% when including revisions to prior months). A drop in housing and highway & street projects led declines across nearly all major categories.



Source: Institute for Supply Management/Haver Analytics



Source: Institute for Supply Management/Haver Analytics

Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	May-20	Apr-20	Mar-20	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
<b>Business Barometer</b>	43.1	41.5	49.1	44.6	47.1	52.3
<b>New Orders</b>	31.8	27.1	42.2	33.7	41.8	52.5
<b>Production</b>	33.2	27.5	47.7	36.1	43.0	52.0
<b>Inventories</b>	50.4	49.7	46.9	49.0	48.6	51.4
<b>Employment</b>	32.1	27.5	43.8	34.5	40.4	53.1
<b>Supplier Deliveries</b>	68.0	76.0	65.0	69.7	61.9	52.5
<b>Order Backlog (NSA)</b>	38.2	37.8	45.9	40.6	43.5	47.2
<b>Prices Paid (NSA)</b>	40.8	35.3	37.4	37.8	44.1	53.2
<b>New Export Orders</b>	39.5	35.3	46.6	40.5	45.5	51.0

Source: National Association of Purchasing Management

This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.