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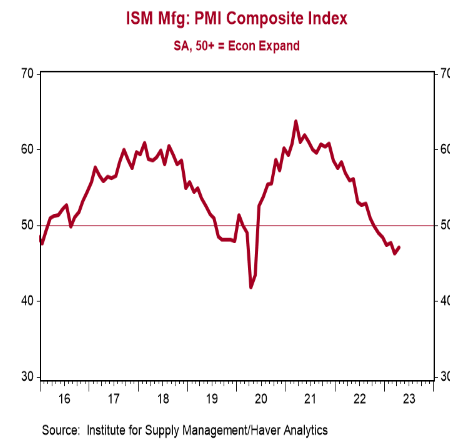
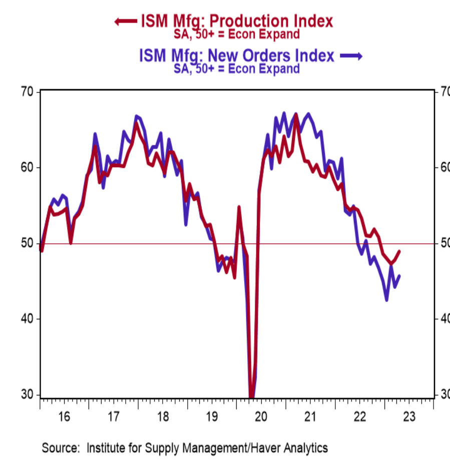
April ISM Manufacturing Index

- The ISM Manufacturing Index increased to 47.1 in April, beating the consensus expected 46.8. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were mixed in April. The new orders index increased to 45.7 from 44.3 in March, while the production index rose to 48.9 from 47.8. The supplier deliveries index fell to 44.6 from 44.8 in March and the employment index increased to 50.2 from 46.9.

- The prices paid index rose to 53.2 in April from 49.2 in March.





Implications: Today's report on the US factory sector was moderately good news, with the ISM Manufacturing Index posting a rebound from the lowest reading since the early months of COVID. That said, the overall index remains in contraction territory and only five of eighteen industries reported growth in April. We continue to believe a recession is on the way in 2023 and today's report continues to show that the goods sector of the economy is likely to lead the way. Survey respondents in April noted slowing demand from certain customers as improvements in supply chains have resulted in a buildup in inventories. In fact, the customer inventories index rose to 51.3 in April, the first reading in expansion territory since 2016! It's no surprise then that the forward-looking components of today's report like new orders and production both remained in contraction in April. Consumers have been shifting their preferences away from goods and back toward services. A combination of less demand from consumers and built-up inventories at retailers means factory output is likely to remain sluggish. One piece of good news is that fewer new orders and improvements in supply chains has allowed factories to catch up on order backlogs, with that index falling to 43.1 in April. Another positive this morning was the rebound in the employment index, which rose (barely) back into expansion at 50.2 in April. The hiring to reduction ratio among panelists' comments was 1-to-1 in April and only seven of eighteen industries reported employment growth. Finally, on the inflation front, the prices index rose to 53.2 in April. The prices index has been on an upward trend again since December and will be important to watch going forward as a rebound in goods inflation will make it even harder for the Fed to wrestle inflation down to its 2.0% target. In other news this morning, construction spending increased 0.3% in March, with a gain in manufacturing projects more than offsetting declines in homebuilding and commercial development.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	Apr-23	Mar-23	Feb-23	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	**47.1**	46.3	47.7	47.0	47.7	55.9
New Orders	**45.7**	44.3	47.0	45.7	45.2	53.8
Production	**48.9**	47.8	47.3	48.0	48.6	54.4
Inventories	**46.3**	47.5	50.1	48.0	49.6	52.7
Employment	**50.2**	46.9	49.1	48.7	49.4	51.2
Supplier Deliveries	**44.6**	44.8	45.2	44.9	45.4	67.2
Order Backlog (NSA)	**43.1**	43.9	45.1	44.0	42.8	56.0
Prices Paid (NSA)	**53.2**	49.2	51.3	51.2	46.8	84.6
New Export Orders	**49.8**	47.6	49.9	49.1	48.6	52.7

Source: National Association of Purchasing Management