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May ISM Manufacturing Index

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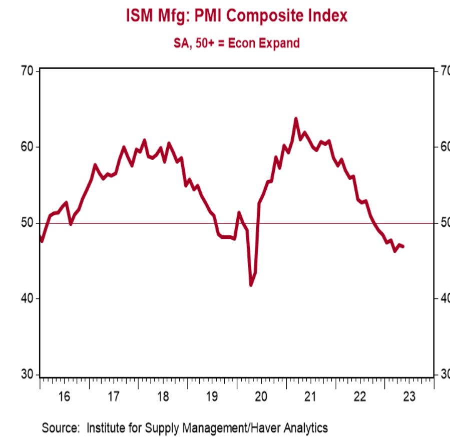
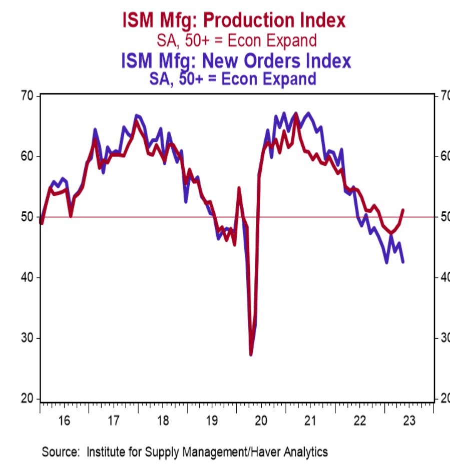
- The ISM Manufacturing Index declined to 46.9 in May, narrowly missing the consensus expected 47.0. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)

- The major measures of activity were mixed in May. The new orders index declined to 42.6 from 45.7 in April, while the production index rose to 51.1 from 48.9. The supplier deliveries index fell to 43.5 from 44.6 in April and the employment index increased to 51.4 from 50.2.

- The prices paid index fell to 44.2 in May from 53.2 in April.





Implications: Today's report on the US factory sector showed that activity continued to slow in May, with the overall index remaining in contraction territory for the seventh month in a row. Looking at the details, only four of eighteen industries reported growth in May. We continue to believe a recession is on the way and today's report continues to show that the goods sector of the economy is likely to lead the way. Survey respondents in May noted worries about slowing demand from customers on the horizon. With this in mind, it wasn't surprising to see the new orders index fall near a new post-pandemic low in May. In fact, the customer inventories index rose to 51.4 in May, the second reading in a row in expansion territory which hasn't happened since 2016! 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 37.5 in May. This is the lowest reading for this index since the 2008 Financial Crisis. Another positive this morning was the increase in the employment index, which rose to 51.4 in May, the second month in a row in expansion. That said, the hiring to reduction ratio among panelists' comments was 1-to-1 in May and only five of eighteen industries reported employment growth. Finally, on the inflation front, the prices index dropped to 44.2 in May, disrupting the recent upward trend. In employment news this morning, ADP's measure of private payrolls increased 278,000 in May versus a consensus expected 170,000. meanwhile, initial claims for jobless benefits rose 2,000 last week to 232,000. Continuing claims rose 6,000 to 1.795 million. We also got data on construction spending this morning which increased 1.2% in April. This larger than expected gain was driven by an increase in manufacturing projects and home building which more than offset declines in power and sewage projects. Finally, the national Case-Shiller index rose 0.4% in March while the FHFA index increased 0.6%. Notably, while the Case-Shiller index is still down from its peak in June by 2.3%, the FHFA index is now at a new high and up 0.7% from the previous high.

Institute for Supply Management Index *Seasonally Adjusted Unless Noted: 50+ = Econ Growth*	May-23	Apr-23	Mar-23	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	**46.9**	47.1	46.3	46.8	47.3	56.1
New Orders	**42.6**	45.7	44.3	44.2	44.5	54.9
Production	**51.1**	48.9	47.8	49.3	48.6	54.7
Inventories	**45.8**	46.3	47.5	46.5	48.7	55.0
Employment	**51.4**	50.2	46.9	49.5	49.8	50.2
Supplier Deliveries	**43.5**	44.6	44.8	44.3	44.8	65.7
Order Backlog (NSA)	**37.5**	43.1	43.9	41.5	42.4	58.7
Prices Paid (NSA)	**44.2**	53.2	49.2	48.9	47.0	82.2
New Export Orders	**50.0**	49.8	47.6	49.1	48.8	52.9

Source: National Association of Purchasing Management