

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

May ISM Non-Manufacturing Index

- The ISM Non-Manufacturing index declined to 50.3 in May, well below the consensus expected 52.4. (Levels above 50 signal expansion; levels below signal contraction.)
- The major measures of activity were all lower in May. The new orders index fell to 52.9 from 56.1, while the business activity index declined to 51.5 from 52.0. The employment index fell to 49.2 from 50.8, while the supplier deliveries index declined to 47.7 from 48.6.
- The prices paid index declined to 56.2 in May from 59.6 in April.

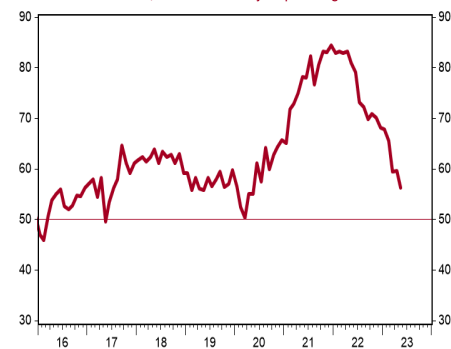
Implications: Today’s ISM Services report showed a pullback in the rate of growth in the services sector, as the headline index declined to 50.3, below even the most pessimistic forecast. The two most forward-looking pieces of the report – new orders and business activity – both fell in May. While they remain in expansion territory, business activity fell to a new low for 2023 and new orders remains just a tick above its low for the year. The general softening shown by these two categories was also echoed in the respondent comments. The weak headline number can also be attributed to the two categories that were in contraction territory in May: employment and supplier deliveries. The employment index fell to 49.2 after three consecutive months north of 50. Respondent comments revealed that companies are starting to pause hiring until there’s a better understanding of where the economy is heading, while others are trying to do more with the same staff to combat compressing margins. Meanwhile, supplier deliveries remained in contraction territory at 47.7 for the fourth month in a row, signaling faster lead times for companies. Finally, the highest reading of any index in May once again came from prices paid, which fell to a still elevated 56.2. The prices index has been trending downward since the 84.5 peak at the end of 2021 – but make no mistake – inflation is still a major problem in the services sector; twelve out of eighteen major industries reported paying higher prices in May. Recent data show the Federal Reserve’s job in wrestling inflation back down to its 2.0% target is not over; we expect them to keep monetary policy tighter than what the market expects in the months to come. As for the economy, while we don’t believe the services side of the economy is there yet, we continue to believe a recession is on the way. Equity investors should remain cautious as we navigate these unprecedented times.

ISM Services: Services PMI Composite Index
 SA, 50+=Increasing



Source: Institute for Supply Management/Haver Analytics

ISM Services: Prices Index
 SA, 50+ = Economy Expanding



Source: Institute for Supply Management/Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	May-23	Apr-23	Mar-23	3-month moving avg	6-month moving avg	Year-ago level
Composite Index	50.3	51.9	51.2	51.1	52.2	56.4
Business Activity	51.5	52.0	55.4	53.0	54.9	55.8
New Orders	52.9	56.1	52.2	53.7	54.9	58.1
Employment	49.2	50.8	51.3	50.4	50.8	50.3
Supplier Deliveries (NSA)	47.7	48.6	45.8	47.4	48.0	61.3
Prices	56.2	59.6	59.5	58.4	62.8	80.9

Source: Institute for Supply Management