

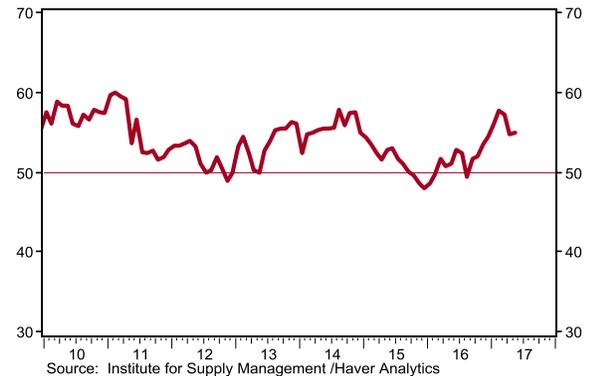
May ISM Manufacturing Index

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

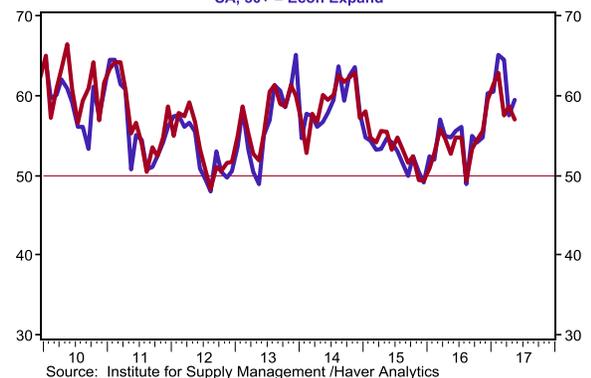
- The ISM Manufacturing Index rose to 54.9 in May, coming in slightly above the consensus expected 54.8. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mixed in May, but all stand above 50, signaling growth. The new orders index rose to 59.5 from 57.5 in April, while the employment index increased to 53.5 from 52.0. The supplier deliveries index declined to 53.1 from 55.1, and the production index fell to 57.1 from 58.6 in April.
- The prices paid index declined to 60.5 in May from 68.5 in April.

Implications: Manufacturing activity expanded for a 96th consecutive month in May, and at a slightly faster pace than April. And growth continues to remain broad based, with fifteen of eighteen industries reporting growth, while just two reported decline. A look at the major measures of activity shows expansion continued across the board, with all measures remaining above 50. The new orders index showed the largest pickup in expansion in May, rising to 59.5 from 57.5 in April. Through the first five months of the year, new orders have shown the fastest pace of expansion going back to 2010. Meanwhile, production activity declined to 57.1 in May from 58.6 in April. While a modest slowdown from April, production remains well above 50, signaling growth, and the pickup in new orders should keep production elevated in the months ahead. On the jobs front, the employment index rose to 53.5 in May. But it's important to remember that manufacturing remains a small portion of total employment. For a better picture of labor market health, we tend to focus on broader signals (initial claims, earnings growth, and consumer spending) which have shown constant strength in recent years despite some turbulent times for the manufacturing sector. On the inflation front, the prices paid index slipped to 60.5 in May from 68.5 in April. Rising economic activity and the lagged effect of loose monetary policy continue to put pressure on a wide variety of inputs, and place the onus on the Fed not to fall behind the curve in raising rates that are too low for the current environment. Construction data, also released this morning, shows spending declined 1.4% in April, led by declines in homebuilding and highway & street projects. However, construction was revised up substantially in prior months. In other recent news, pending home sales, which are contracts on existing homes, slipped 1.3% in April following a 0.9% decline in in March. These figures suggest a mild pullback in existing home sales (counted at closing) in May. But the markets are focused on tomorrow's jobs report and we got the last two pieces of the forecasting puzzle this morning. The ADP employment report showed a 253,000 gain in private payrolls in May. Initial jobless claims rose 13,000 to 248,000. The four-week moving average is 238,000. Continuing claims declined 9,000 to 1.92 million. Plugging these figures into our models suggests a 231,000 gain in nonfarm payrolls in May, which would be the fourth month north of 200,000 so far this year.

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



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



Institute for Supply Management Index <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i>	May-17	Apr-17	Mar-17	3-month moving avg	6-month moving avg	Year-ago level
Business Barometer	54.9	54.8	57.2	55.6	55.9	51.0
New Orders	59.5	57.5	64.5	60.5	61.2	54.8
Production	57.1	58.6	57.6	57.8	59.5	52.7
Inventories	51.5	51.0	49.0	50.5	49.8	45.0
Employment	53.5	52.0	58.9	54.8	54.6	49.3
Supplier Deliveries	53.1	55.1	55.9	54.7	54.3	53.3
Order Backlog (NSA)	55.0	57.0	57.5	56.5	54.2	47.0
Prices Paid (NSA)	60.5	68.5	70.5	66.5	67.0	63.5
New Export Orders	57.5	59.5	59.0	58.7	56.9	52.5

Source: National Association of Purchasing Management