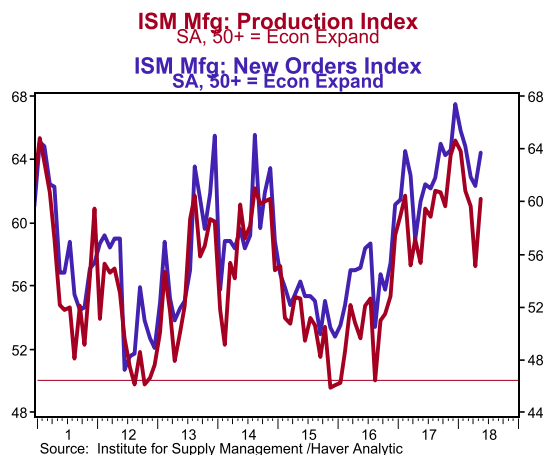
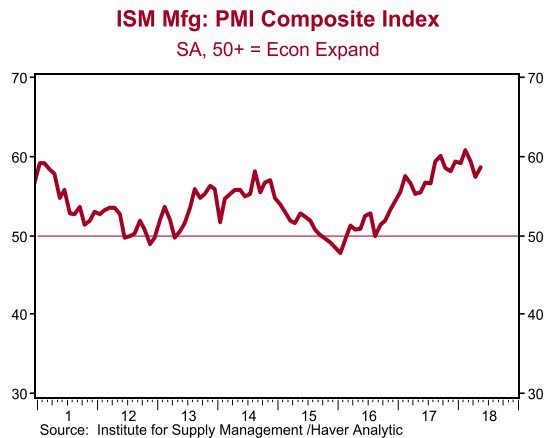


May ISM Manufacturing Index

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- The ISM Manufacturing Index rose to 58.7 in May, beating the consensus expected 58.2. (Levels higher than 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all higher in May, and all stand comfortably above 50, signaling growth. The production index jumped to 61.5 from 57.2 in April, while the new orders index rose to 63.7 from 61.2. The employment index increased to 56.3 from 54.2, and the supplier deliveries moved to 62.0 from 61.1 in April.
- The prices paid index rose to 79.5 in May.

Implications: In case you missed it, the manufacturing sector is having its best year since 2004. Including May’s reading of 58.7, the ISM manufacturing index has averaged a very impressive reading of 59.0 through the first five months of the year, and a look at the details of today’s report show the healthy pace of expansion should continue in the months ahead. Similar to this morning’s [employment report](#), growth was broad based in May, with sixteen of eighteen industries reporting growth in May (no industries reported contraction). Meanwhile the two most forward-looking indices - new orders and production – both stand at robust levels in the 60’s (remember, levels above 50 signal expansion). In fact, the new orders index has seen readings of 60 or higher for thirteen consecutive months, tying the longest stretch above 60 going all the way back the early 1970’s. In other words, the strength in manufacturing isn’t a blip on the radar, it’s a sustained trend. The employment index rose to 56.3 from 54.2 in April, supporting the gain of 18,000 manufacturing jobs reported in this morning’s employment report. And survey respondents suggest that employment would be higher, but for difficulties in finding both skilled and unskilled labor to fill positions. Prices, meanwhile, rose once again in May to a reading of 79.5, the highest since 2011. A total of twenty-two commodities were reported up in price, while none showed declines. Yet another sign ([see yesterday’s reported on the PCE price index](#)) that inflation is picking up pace as economic growth accelerates, and a signal to the Fed that a total of four rate hikes in 2018 are not just appropriate, but warranted. In addition to a rate hike that is essentially locked in for this month’s Fed meeting, look for updates to both the Fed statement and economic projections to show an acknowledgement that both employment and inflation are running ahead of prior forecasts. In sum, it’s hard to find much not to like in today’s report. In other news this morning, construction spending rose 1.8% in April (and up 2.0% including upward revisions to prior months). For April itself, a surge in home building and a pickup in spending on power projects more than offset a decline in commercial construction (think retailers and wholesalers).



| Institute for Supply Management Index | May-18 | Apr-18 | Mar-18 | 3-month moving avg | 6-month moving avg | Year-ago level |
|--|-------------|--------|--------|--------------------|--------------------|----------------|
| <i>Seasonally Adjusted Unless Noted: 50+ = Econ Growth</i> | | | | | | |
| Business Barometer | 58.7 | 57.3 | 59.3 | 58.4 | 59.1 | 55.5 |
| New Orders | 63.7 | 61.2 | 61.9 | 62.3 | 64.0 | 60.0 |
| Production | 61.5 | 57.2 | 61.0 | 59.9 | 61.9 | 57.5 |
| Inventories | 50.2 | 52.9 | 55.5 | 52.9 | 52.7 | 52.1 |
| Employment | 56.3 | 54.2 | 57.3 | 55.9 | 56.6 | 53.3 |
| Supplier Deliveries | 62.0 | 61.1 | 60.6 | 61.2 | 60.2 | 54.4 |
| Order Backlog (NSA) | 63.5 | 62.0 | 59.8 | 61.8 | 59.4 | 54.0 |
| Prices Paid (NSA) | 79.5 | 79.3 | 78.1 | 79.0 | 75.4 | 59.5 |
| New Export Orders | 55.6 | 57.7 | 58.7 | 57.3 | 58.7 | 57.8 |

Source: National Association of Purchasing Management