

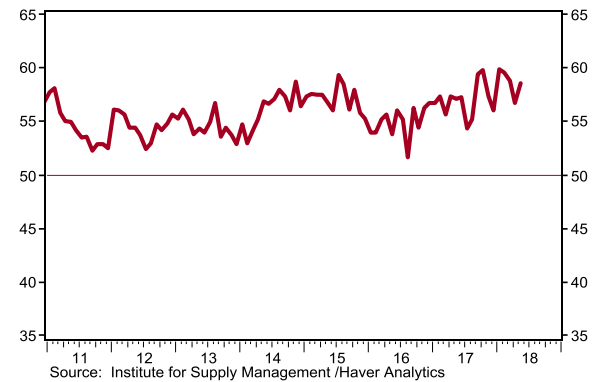
May ISM Non-Manufacturing Index

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- The ISM non-manufacturing index rose to 58.6 in May, easily beating the consensus expected 57.6. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were all higher in May, and all remain comfortably above 50, signaling expansion. The supplier deliveries index rose to 58.5 from 54.5 in April, while the business activity index increased to 61.3 from 59.1. The new orders index moved higher to 60.5 from 60.0 in April, and the employment index rose to 54.1 from 53.6.
- The prices paid index increased to 64.3 from 61.8 in April.

Implications: Through May, the service sector is off to the second-best start to a year (behind just 2004, which also followed a tax cut) since reporting began in late 1997. If that sounds familiar, it's because we reported last Friday that the manufacturing sector is also having its best year in more than a decade. Fourteen service industries reported growth in May, while only one – information – showed decline. The most forward-looking indices – new orders and business activity – both rose in May and now stand at robust readings above 60. Given these healthy readings, expect service sector activity to continue to hum along in the coming months. The supplier deliveries index showed the sharpest increase in May, coming off a surprise dip in April, and now stands tied for the highest reading since 2005. Deliveries continue to be delayed by a shortage of semi-truck drivers paired with an uptick in activity that exceeded companies' expectations. On the inflation front, the prices paid index increased to 64.3 in May, with rising prices for freight, fuels, and steel leading the way. Meanwhile the employment index rose to 54.1 from 53.6 in April. And this rise comes despite survey respondents reporting difficulty in finding qualified labor, which, [given the strength of the labor market](#), comes as little surprise. In fact, this morning's job openings and labor turnover survey (JOLTS) shows that there are now more open positions than there are unemployed workers to fill them. Before March, this had never happened since JOLTS reporting began back in late 2000. Signs of a healthy economy are everywhere you look, reinforcing our view that Q2 real GDP growth will come in around 4.0%, while 2018 as a whole should see real growth of 3%, the fastest annual growth rate since 2005. In other recent news, automakers reported Friday that they sold cars and light trucks at a 16.8 million annual rate in May, down 1.8% from April, but still up 0.6% from a year ago.

ISM Nonmanufacturing: NMI Composite Index
 SA, 50+=Increasing



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



Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	May-18	Apr-18	Mar-18	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	58.6	56.8	58.8	58.1	58.3	57.1
Business Activity	61.3	59.1	60.6	60.3	60.2	60.6
New Orders	60.5	60.0	59.5	60.0	60.3	58.9
Employment	54.1	53.6	56.6	54.8	56.2	57.3
Supplier Deliveries (NSA)	58.5	54.5	58.5	57.2	56.3	51.5
Prices	64.3	61.8	61.5	62.5	61.7	50.1

Source: Institute for Supply Management