

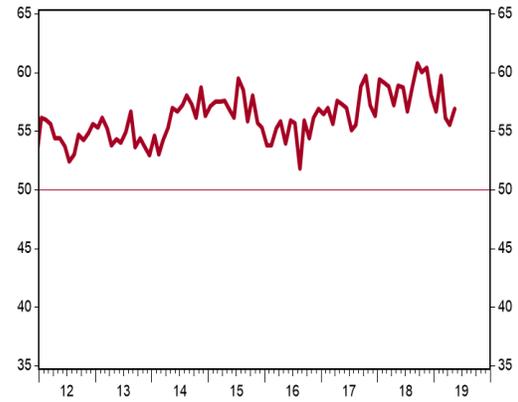
May ISM Non-Manufacturing Index

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- The ISM non-manufacturing index rose to 56.9 in May, beating the consensus expected 55.4. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly higher in May. The employment index jumped to 58.1 from 53.7 in April, while the business activity index rose to 61.2 from 59.5. The new orders index increased to 58.6 from 58.1 in April. The supplier deliveries index fell to 49.5 from 50.5.
- The prices paid index slipped to 55.4 from 55.7 in April.

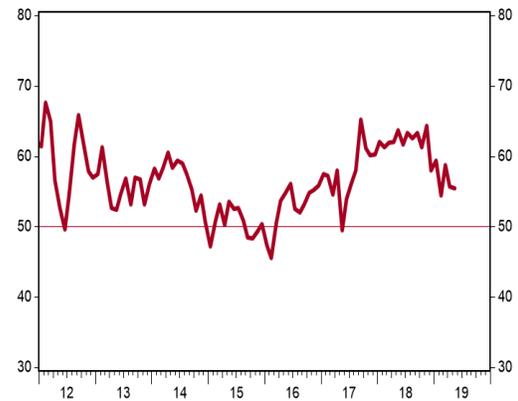
Implications: It feels like a tale of two economies. While the manufacturing sector report from the ISM saw a slowdown in the pace of growth in May, the service sector picked up pace. Sixteen of eighteen sectors reported growth in May, while only one – agriculture, fishing & hunting - reported contraction. And, if survey respondent comments are any indication, impacts from the China tariff tiff are minor, and primarily related to uncertainty as to what may happen, not impacts from what has/is happening. Meanwhile a tight labor market remains a factor holding back even faster growth in output, but also means that there are more people working and bringing home paychecks that flow through to improved spending on areas like entertainment and recreation. The two most forward-looking indices – new orders and business activity – both moved higher in May, and both stand at very healthy levels. The new orders rose to 58.6 from 58.1 in April, while business activity moved to 61.2 from 59.5, and both indices are just two months away from marking ten consecutive years of expansion. Add in companies running at or near capacity, and both measures should remain elevated in the coming months. Companies are investing, but it takes time for new capacity to come online. Shortages are impacting prices too, which continued to rise in May. Paying up for qualified labor (most notably in construction) continues to be a dominant theme, while fuel and dairy costs also contributed to higher prices in May. Despite the labor shortage, the employment index jumped to 58.1 in May from 53.7. Pairing this with other recent data on the jobs front, including the ADP employment report out this morning that showed private payroll gains of 27,000 in May, and we are currently forecasting that nonfarm payrolls rose by around 155,000 in May. That's a slowdown from the 263,000 jobs added in April, but healthy growth nonetheless. In recent news on the auto sector, cars and light trucks sold at a 17.3 million annual rate in May, easily beating the consensus expected pace of 16.9 million. Sales were up 5.9% from April and 0.7% from a year ago. We expect auto sales to moderate in the years ahead as consumers shift their spending to other sectors.

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



Source: Institute for Supply Management/Haver Analytics

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



Source: Institute for Supply Management/Haver Analytics

Non-Manufacturing ISM Index <i>Seasonally Adjusted Unless Noted</i>	May-19	Apr-19	Mar-19	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	56.9	55.5	56.1	56.2	57.2	58.9
Business Activity	61.2	59.5	57.4	59.4	60.6	61.2
New Orders	58.6	58.1	59.0	58.6	60.2	60.6
Employment	58.1	53.7	55.9	55.9	56.2	55.2
Supplier Deliveries (NSA)	49.5	50.5	52.0	50.7	51.4	58.5
Prices	55.4	55.7	58.7	56.6	56.9	63.7

Source: Institute for Supply Management