

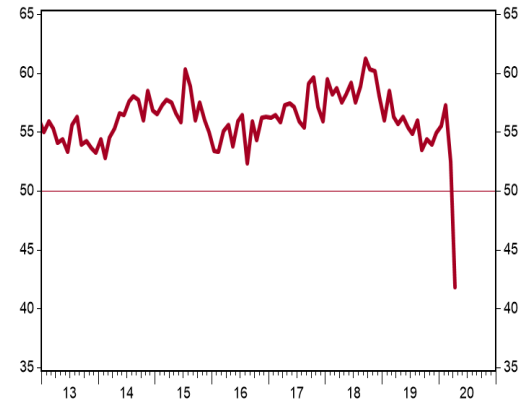
April ISM Non-Manufacturing Index

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

- The ISM Non-Manufacturing index declined to 41.8 in April, beating the consensus expected 38.0. (Levels above 50 signal expansion; levels below 50 signal contraction.)
- The major measures of activity were mostly lower in April. The business activity index fell to 26.0 from 48.0 in March, while the new orders index declined to 32.9 from 52.9. The employment index moved lower to 30.0 from 47.0 in March. The supplier deliveries index increased to 78.3 from 62.1.
- The prices paid index rose to 55.1 from 50.0 in March.

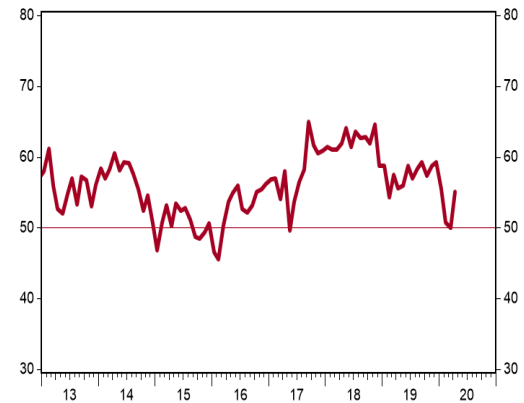
Implications: The ISM non-manufacturing index moved to contraction territory for the first time since December of 2009 as the effects of the Coronavirus shutdown were felt across industries. And while the headline reading of 41.8 beat the consensus decline to 38.0, the index was held higher by the supplier deliveries index rising to 78.3 from 62.1 in March. The supplier deliveries index increases when companies report longer delivery delays (typically a sign of more demand than companies can fill in a timely manner), but the current situation has generated delivery slowdowns due to supply chain constraints and lowered production levels. In other words, not great news. In total, sixteen of eighteen companies reported contraction in April, while two – public administration and finance & insurance – reported growth. The growth from the finance sector came in part due to increased loan processing from the federal stimulus package. The two most forward-looking indices – business activity and new orders – had the largest declines in April. Orders dropped 20.0 points, the largest monthly decline (by a longshot) in the index’s history dating back to the late 1990s. The business activity index followed suit, falling 22.0 points to a reading of 26.0 versus the 48.0 reading in March, and also hitting a record low for the series. The employment index dropped to 30.0 in April from 47.0 in March as all eighteen sectors reported declines. We expect the employment report for April, which is due out this Friday, will show the largest single-month impact from the virus, with a forecast 22 million jobs lost. For comparison, payrolls declined by 8.7 million during a 25-month period during the sub-prime mortgage crisis. So not only is the job loss from the shutdown more severe, it happened much faster. As noted above, the one key measure of activity that moved higher in April was supplier deliveries, which surged to 78.3 (the highest reading on record) from 62.1 in March. The global supply-chain disruptions that have slowed shipping and reduced production capacity around the world will remain a factor for the foreseeable future, but they will eventually recover. On the inflation front, the prices paid index rose to 55.1 from 50.0 in March. Rising costs for cleaning products and medical supplies (like personal protective equipment) more than offset declining fuel costs. While the data will continue to be ugly for a while, the good news is that states are starting to open their doors. As of this morning, twenty-four states have partially reopened, while four are set to lift stay-at-home orders soon. As the recovery begins – and as companies and their employees return to work – the data will improve. We will still see hefty declines compared to year-ago levels, but the high-frequency data that provide a more real-time check on the pulse of the economy is already showing green shoots of progress.

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>	Apr-20	Mar-20	Feb-20	3-month <i>moving avg</i>	6-month <i>moving avg</i>	Year-ago <i>level</i>
Composite Index	41.8	52.5	57.3	50.5	52.7	55.7
Business Activity	26.0	48.0	57.8	43.9	50.3	59.6
New Orders	32.9	52.9	63.1	49.6	52.9	58.3
Employment	30.0	47.0	55.6	44.2	49.2	54.5
Supplier Deliveries (NSA)	78.3	62.1	52.4	64.3	58.1	50.5
Prices	55.1	50.0	50.8	52.0	54.9	55.6

Source: Institute for Supply Management